A POLICY ROAD MAP FOR EXPORT SUCCESS

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A POLICY ROAD MAP
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This publication is intended to carry forward the analysis in ITC's National Trade Policy for Export Success (NTPES), published in 2011 and to go further in assisting government and the private sector to understand the factors affecting export success and design programmes that are appropriate to their circumstances. It attempts to advance a coherent policy framework that will help unleash the export potential of firms through trade policy, behind the border, at the border and beyond the border; sets out a road map for exporters to become internationally competitive; includes bibliographic references (p. 39).

Descriptors: **Trade Policy, Export Strategy, Export Promotion, Competitiveness, Developing Countries**

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English

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Preface

Few topics have attracted more attention from international policymakers than economic growth stemming from international trade and global value chain formation. While it is a broad topic with many facets, the principal theme throughout is that when properly harnessed, the force of international trade can propel large-scale growth and development of local economies.

Countries that have successfully harnessed this force to achieve domestic policy goals have done so through export-focused trade policies, linking domestic comparative advantages to global demand. The mechanism of export-led growth is based on the creation of a virtuous cycle where business-friendly regulatory environments lead to increased foreign investment, which in turn leads to increased trade contributing to increased employment and reduced poverty.

The principal tools necessary to implement this mechanism are well known: domestic competition, rule-of-law, strong institutions and business service providers, and trade facilitation. However, the optimal application of each tool varies by country. The needs of international business are constantly shifting and countries have differing geographical and capital endowments. Moreover, economic development can alter the comparative advantage of certain sectors and technological advances can affect the needs of certain industries (and, in some cases, the need *for* certain industries). In short, policies must be remade and rebalanced over time.

In addition, effective export-led growth cannot be attained by simply ‘bolting on’ the missing element. Instead, laws and regulations must be well informed through dialogue with the private sector and implemented in the right sequence to create a mutually reinforcing framework that fosters competitiveness and enhances communication. Reforms will necessarily create friction in uncompetitive areas, which is why all stakeholders must know and understand the issues and be convinced that the longer-term benefits will more than make up for the shorter-term losses. At the very least, a critical mass of ministries, regulators and private sector organizations must be able to identify and pursue common goals, with each party properly vested in the process.

In light of these realities, ‘export success’ becomes more of a journey than a destination. Thus, we have decided to structure this publication as a ‘road map’ for developing countries that embark on the journey towards export-led growth. It brings together research, analysis and experience gathered by countries in implementing trade policy and regulatory reforms. More specifically, this publication provides a diagnostic methodology for policymakers to determine the factors that affect competitiveness with a view to coming up with detailed policy and regulatory reform agenda recommendations.

In addition to policymakers, we hope entrepreneurs and private sector organizations will also be able to use this publication to assess the impact of regulations on the international competitiveness of their businesses and to identify areas where the private sector can inform and influence trade policy.

Most of all, we hope this publication will stimulate increased discussion among all stakeholders, providing a baseline for informed trade policy formation, ultimately leading to inclusive economic growth.

Acknowledgements

This publication was written by Sam Laird, a private consultant and Visiting Professor, TRAPCA, Tanzania, who was formerly a senior economist with the United Nations Conference on Trade and Development (UNCTAD), the World Bank and the WTO.

Coordination of this publication was under the responsibility of Rajesh Aggarwal, Chief, Trade Facilitation and Policy for Business section, ITC.

Contents

Abbreviations

The following abbreviations are used:

FDI	Foreign direct investment
GATS	General Agreement on Trade in Services
GPA	Government Procurement Agreement
ITC	International Trade Centre
LDCs	Least developed countries
MFN	Most favoured nation
NTMs	Non-tariff measures
NTPES	National trade policy for export success
QRs	Quantitative restrictions
SPS	Sanitary and phytosanitary measure
TBT	Technical barrier to trade
TPOs	Trade promotion organizations
TRIMs	Trade-related investment measures
TRQs	Tariff rate quotas
TSIs	Trade support institutions
SMEs	Small and medium-sized enterprises
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Executive summary

Exporting has been critical for the economic development of many countries, but success requires a coherent effort on several fronts that takes account of the particularities of each country – in effect a 'road map' setting out what needs to be done and when to become internationally competitive. This road map, laid out here, starts with a diagnostic process to orient each country initially, and includes a set of mile posts or 'road markers' to help countries progress in a consistent manner. There is also a need for a strong hand at the wheel to steer the progress in the form of a National Competitiveness Council, or similar body, with broad oversight and authority, backed by strong, broad community support.

ITC's National Trade Policy for Export Success (NTPES), published in 2011, discusses some of the main areas for action by policymakers and the private sector in order to achieve export success. The present report brings the main ideas of that earlier work into an internally consistent framework, setting out priorities and an action plan with a suggested time frame.

As noted in NTPES, policymakers need to address a wide range of issues that go towards lifting productivity and hence competitiveness. The measures to be taken include actions to lift internal competition, to bring forth productive investment and to make institutions work better. Export businesses need efficient soft and hard infrastructure (energy, communications, transport, etc.) to facilitate the movement of goods to destination markets. Market success also requires efforts to ensure product compliance with quality and sanitary and phytosanitary standards, as well as internationally acceptable certification. The result should be an overarching set of prioritized objectives prepared in a holistic fashion by bringing together all relevant stakeholders and driven by the common goal of *export impact for good*.

An analysis of the various cost centres in global value chains shows that export success depends in the first instance on the cost of production. This means the cost of materials and other factors of production (labour, capital, land etc.), and combining these in an efficient manner, whether it be in the production of goods or of services. The productivity of labour, capital and other factors of production – as well as the management of the productive process (total factor productivity) – depends on the technology being used and this may equally depend on access to investment to bring to bear the technology appropriate for the scale of production and the costs of other inputs in the producing country. In turn, domestic and foreign investment may depend on the sense of security in the country, including the legal and institutional frameworks. The availability of capital for small and medium-sized enterprises at competitive interest rates is an issue that needs to be addressed by competition policy in the banking sector or alternative financing to address market failure in this area. Other elements bearing on productivity that should also be considered are labour market and land policies.

However, export success is not solely determined by having the lowest ex-factory or farm-gate prices. The key to success is the price at which goods or services are delivered in foreign markets or the costs of getting the consumer, such as the tourist, to the goods or services on offer, taking account of the quality/price ratio. This depends on efficient logistics – transport and communications – and there is a need for exporters to have access to these services and world prices if they are to be competitive in the delivery of their own production of goods or services to their clients in export markets. Indeed, for many products, the cost of such services may well exceed the farm-gate or ex-factory price of export goods and are critical to export success.

NTPES notes that the range of policy instruments needed to lift export competitiveness includes (i) tariffs, non-tariff measures, trade facilitation, customs valuation (including rules of origin), and transparency in the formulation and application of policies and policy instruments; (ii) regulatory systems, market access and national treatment for foreign services' suppliers, and an effective competition policy; (iii) investment rules and procedures, protection of property rights, good governance, and several aspects of the business, environment; (iv) technical regulations, standards, conformity assessment, testing, mutual recognition agreements, enquiry points; and (v) trade negotiations at multilateral, regional and bilateral levels. Less direct, but with important long-term policy implications for international competitiveness, are policies in the areas of education (building human capital, skills, etc.), research and development, labour laws (wage rates, working conditions), land ownership and so on.

Overall, the policy instruments need to address a range of issues ‘at the border,’ ‘behind the border’ and ‘beyond the border’. Some instruments target specific areas of the supply chain that would boost competitiveness. Others address inefficiencies in specific sectors: agriculture, manufacturing and services. Still other instruments are crosscutting and affect multiple areas of the supply chain through policies that shape the country’s trading and economic landscape. These include overall improvements in transport, communications, port services and distribution that can have an impact at various stages of the supply chain. There is also a need for businesses to take note of market developments and to adapt to changes, and, here, trade support institutions can play a valuable role as an interface with foreign markets.

Plotting and following the road map laid out here is a demanding programme that requires a comprehensive and clearly articulated approach to trade policy and regulatory practices, with buy-in from all stakeholders, including the private sector. Such an approach also needs to be applied with flexibility and pragmatism, responding to events and checking on progress before moving on to the next steps on the route. Much of this can be achieved through national efforts, but many developing countries would also benefit from international support in design and implementation through capacity-building and Aid for Trade.

Introduction

National Trade Policy for Export Success (NTPES), published in 2011, discusses some of the main areas for action by policymakers and the private sector in order to achieve export success. The present publication attempts to put these trade and related policies into a systematic framework that indicates what needs to be done, when it needs to be done and the expected time frame to bring about the desired results. In essence, the report sets out a road map for exporters to become internationally competitive.[1] As discussed in the report, this requires a coordinated effort by business and government.

This focus on exports has been critical for the economic development of many developing countries in recent years.[2] As noted in NTPES, exports have contributed to faster growth and poverty reduction. Exporting has also produced economic benefits deriving from efficiency gains associated with exploiting comparative advantage, and the improved allocation of scarce resources, as well as dynamic gains in the more productive export sector driven by higher competition, greater economies of scale, better use of capacity, dissemination of know-how, and technological progress.

There is no simple formula that can guarantee export success for each country: it is important to take account of resources, economic geography, the stage in the development process, and so on. Small countries are most likely to be ‘price takers’ on international markets, but some larger countries and those which are important producers of some commodities may be able to influence international markets. However, there are common elements that are critical for export-led development and the challenge for each country is to implement those key policies, while taking account national particularities.

Export success is also partly determined by the external economic environment. For example, until the recent economic and financial crises, the rapid expansion of trade in recent decades was supported by favourable economic environment. As noted in the NTPES report, the business sector in many countries benefited from this high growth. On the other hand, even during the recent economic and financial crises, a number of developing countries managed to expand and diversify their trade in goods and services, including through participation in global value chains.

These success stories pose the key question as to how to develop productive capacities and achieve export success. The NTPES 2011 report attempted to answer this question. As noted there, policymakers must address a wide range of national issues, including creating an enabling business environment (competition, investment, institutions, etc.); providing competitive access to infrastructure (energy, communications, transport, etc.); facilitating reliable and efficient movement of goods to destination markets; and ensuring product compliance with quality and sanitary and phytosanitary standards.

Achieving export success requires a comprehensive and clearly articulated approach to trade policy and regulatory practices, with buy-in by all stakeholders. A coherent trade policy framework bridges most government departments, public and private sector trade-related programmes, and private sector actors. The result is an overarching set of prioritized objectives prepared in a holistic fashion by bringing together all relevant stakeholders and driven by the common goal of *export impact for good*.

This publication is intended to carry forward the analysis in NTPES 2011 and to go further in assisting government and the private sector to understand the factors affecting export success and design programmes that are appropriate to their circumstances.[3] It attempts to advance a coherent policy framework that will help unleash the export potential of firms through trade policy, behind the border, at the

[1] This report does not enter the debate on the difficult concept of ‘national competitiveness’ which Krugman has characterized as ‘a poetic way of saying productivity’. Krugman, P. (1994), ‘Competitiveness: A Dangerous Obsession’, Foreign Affairs (March-April).

[2] The focus on exports is not intended to dismiss the importance of imports which are critical to building productive capacities at the early stages of development, as discussed in the section on Access to inputs. Indeed, in a virtuous circle exports help pay for such imports.

[3] Apart from the 2011 NTPES publication, this current work also draws on work by other authors, including experience of the Diagnostic Trade Integration Studies that have been prepared for a number of least-developed countries (LDCs) in the context of the Enhanced Integrated Framework for Trade-related Technical Assistance (EIF) and various Poverty Reduction Strategy Programmes (PRSPs) undertaken by the World Bank, in which trade has become increasingly mainstreamed into development policies.

border and beyond the border. This is constructed using a series of 'road map markers' throughout the text, drawing these together into a single road map in the final chapter.

The road map attempts to lay out a series of specific actions for any country wishing to build a national export competitiveness strategy. These start with the diagnosis of the issues and the design of a comprehensive programme. The actions also include the process of building public support, institutional support for the administration of an export competitiveness policy and programme, processing investment proposals, the need for complementarity between policies (of which the more important are spelled out in some detail), the enabling overall political and institutional factors and economic management, and the need to respect the rule of law as an element in improving the business climate. This series of actions is derived from the experiences of reform in many countries, on which the NTPES and other source materials were based. These actions are subsequently organized to the extent possible in an appropriate sequence, corresponding to the idea of a road map, although some actions can and should be carried out in parallel – for example, the development of the public processes, improving governance, establishing legal security for investors, trade facilitation, trade liberalization and competition policies, etc.

It is underlined that such a strategy needs to be implemented with flexibility and pragmatism and this is also one of the key lessons from the independent Growth Report of 2006.[4] Reforms to build and maintain competitiveness are and need to be ongoing to adapt to a constantly changing world. Indeed, the mark of a competitive economy is its adaptability to changing circumstances at home and abroad. Thus, a successful competitiveness strategy is not simply a programme to be implemented over a few years, but is the start of a new way of thinking to govern policymaking for the future.

The paper is constructed on the basic idea that exports are driven by demand in the foreign market and prices. However, prices are affected by costs which are linked to input prices, productivity (linked in turn to investment), domestic sectoral policies, and competition etc. In the foreign market the transmitted prices are linked to the costs at different stages in the value chain, trade facilitation, trade policy in the foreign market and exchange rates.

On this basis, **Chapter 1** suggests a diagnosis of needs and the development of a strategy for international competitiveness and, specifically, export success, including the need for a high-level national competitiveness council with access by the private sector. The chapter includes in an annex an extensive list of questions that should be useful in undertaking a diagnostic study.

Chapter 2 sets out in some detail the framework for the analysis, showing how demand for exports is driven by economic activity (incomes) in foreign markets and the prices of competing exports. The chapter goes on to look at the various cost centres in the value chain that form the basis for the more detailed analysis that follows as to how policies need to target these cost centres.

Chapter 3 focuses on the elements that influence producer costs, including the business environment, taxation, sectoral policies, policies to lift productivity, access to inputs and competition policy.

Chapter 4, by contrast, looks at factors that influence the price that is faced by consumers and user industries in the foreign market, including the services that are involved in getting the goods or services to the export market and the trade and regulatory policies that influence the final price.

Finally, **Chapter 5** draws together the various 'road map markers' that have been laid down at various stages to compile a final road map that also attempts to give some idea of the timing for implementation of the various stages of the journey to international competitiveness and export success. As noted there, some actions can be taken quickly and can produce success within a short period – in the first few years - while a number of actions need to be implemented over the medium to long terms, with correspondingly longer periods to achieve results.

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[4] Commission on Growth and Development (2008), 'The Growth Report: Strategies for Sustained Growth and Inclusive Development', World Bank, Washington, DC. This was sponsored by the World Bank but the report brings together inputs from a number of international agencies and academic institutions.

Chapter 1 Diagnosis and development of an action plan based on national consensus

1. Need for a national diagnostic study

The factors driving export success vary from country to country, depending on the institutional framework, the culture and the initial situation. Nevertheless, the preparation of a diagnostic study is a logical starting point for the development of a coherent export competitiveness strategy.

When the strategy is determined, it is necessary to plan the implementation, with due attention being given to timing and sequencing, tailored to the needs of the country. Such an action programme is likely to need the preparation of legislative and administrative measures to carry out the programme. Attention may also need to be given to any weaknesses in the broad political, institutional legal frameworks which are critical for good governance – not to mention the perception of good governance - which can be crucial for the investment environment.

Provision also needs to be made for the monitoring or review of the implementation programme, allowing for any necessary improvements or course corrections. This may arise as a result of changing international and national conditions, as well as to address any bottlenecks or unforeseen factors.

Road map marker: Building an export competitiveness strategy and action programme needs to begin with a national diagnostic study. This should identify weaknesses and lay out a remedial strategy, with appropriate policies and instruments for implementation. The diagnostic study should cover not only policies and instruments, but also the political and institutional framework. There is a need for ongoing monitoring to allow for modifications in the light of experience of implementation and changing national and international circumstances.

2. Questions for diagnosis

In order to determine the steps that need to be taken on the road to export success, it is essential to begin with a stocktaking or diagnostic exercise to determine where and how policy action is needed. Depending on the initial situation, policy action by governments to achieve export success could well extend across much of the economy to take account of inter-sectoral linkages and to ensure consistency and coherence in policies and in their implementation. Actions by export businesses, on the other hand, will necessarily be more focused on costs and how to participate in value chains. But business also needs to be clear about what it needs in terms of supportive policies when it voices its claims.

Annex I, at the end of this chapter, provides a list of questions to help launch the diagnostic process. It covers two broad categories of issues that experience shows are pertinent to export success:

- Micro-economic and institutional questions; and
- Trade and infrastructure

Micro-economic and institutional questions to be addressed in the diagnostic process include some of the more fundamental issues that need to be tackled at home to raise export competitiveness abroad. These wide-ranging questions cover the working of the domestic economy and its institutions, which are fundamental to good governance and which set the environment for domestic and foreign investment to lift productivity. They include matters that are often highlighted by the business sector as problems for doing business. For example, the questions cover the workings of governments (‘red tape’), security under the law, the investment regime, business registration, protection of intellectual property rights and competition policy. They also cover the consistency of policies towards different sectors of the economy, including financial services, again a preoccupation for a small business which faces high borrowing rates for investment. The questions are also raised as to whether the labour market, land, and science and education policies are supportive of development and participation in global value chains. Finally, the question is put whether trade support institutions provide the kind of assistance that exporters need if they are to make headway in foreign markets.

Within the area of trade and infrastructure, the questions mainly concern national policies that affect the allocation of resources: tariffs, non-tariff measures (NTMs), financial supports, regulatory reform in services and the operation of state-owned enterprises. The questions also concern broad support for trade and production through the provision of physical infrastructure related to trade, especially in the transport sector, as well as the establishment of industrial parks and export processing zones. They also cover a range of measures to facilitate trade. Finally, turning to measures applied by other countries, there is a question concerning the approach to international trade negotiations at the bilateral, regional and multilateral levels.

Since this report is focused on trade and related policies, it does not go into detail on some other issues that can be important for international competitiveness. These issues include the highly sensitive question of the impact on trade of exchange rates. Exchange rates are influenced by national fiscal and monetary policies, whose main focus is on the domestic economy, balancing growth against inflation. However, such policies also have an impact on exchange rates and hence on trade. For example, while some countries have fixed their currencies against the US dollar as an ‘anchor’ against inflation, this has sometimes caused an appreciation in real terms (taking account of the differential in inflation domestically and in foreign markets) with a negative effect on exports, growth and employment, at least in the short term. This is not something which the private sector can influence greatly, but it is important to take into account in evaluating the impact of other measures which are discussed in this report. While the short-term impact of an appreciation of the domestic currency against foreign currencies may be negative, this may be offset by some of the productivity gains that are the target of some of the policies discussed here.

This wide range of issues related to strategy, policies and instruments across almost the entire range of economic activities needs to be tackled in a coherent manner and implementation needs to be programmed over a period of time, since not all can be done simultaneously. Some are more urgent than others and then priorities may well be different across countries. Some can be done relatively inexpensively. And most will need to be implemented over a period of time, even years. These issues are taken up substantively in successive chapters, while the issue of timing is taken up in the final chapter of the report - Towards a road map for export success.

Road map marker: The diagnosis needs to cover a broad range of policies concerning trade and infrastructure, institutional and macro-economic questions which affect participation in global value chains.

3. Direction of programme

The direction of a programme to analyse, plan and execute a broad-based competitiveness strategy needs to be at the highest level. This is because the range of policies and instruments to be covered in a programme to build international competitiveness spans most government activities. Moreover, such a programme requires coordinated action across ministries and agencies. Finally, the effort on diagnosis and planning of such a programme needs adequate resources.

For these reasons, it is suggested that there is a need for some form of national export council or national competitiveness council (hereinafter NCC) to provide a focus for the work to build international export competitiveness. If such an agency does not exist then it needs to be established, while any existing agency of this type may need to be strengthened. Such an agency or commission, which should be charged with the task of lifting competitiveness, could provide the focus for the investigative work, the development of the action plan, and the building of the necessary support. It could also be involved in overseeing implementation that would likely require actions by many ministries and agencies over the years that it will take to develop, implement, monitor and, where necessary, adjust the national programme.

This agency or commission needs a solid legal or constitutional basis for its work to ensure its authority in directing the national programme.

It is also suggested that the national council needs to be directed at the highest level to ensure due respect, for example, the president or vice-president, who has an overview of the whole economy.

> **Road map marker**: There is a need for a national body – for convenience hereinafter 'the national competitiveness council, NCC' - to oversee the analysis and implementation of a competitiveness strategy, with public and private sector participation to obtain ideas, advice and build consensus. This body needs to be established at the highest level to have the authority and resources to carry out its work.

4. Build broad-based support

The National Competitiveness Council also needs to obtain advice and inputs from business, academia and civil society in carrying out its functions in some sort of periodic consultative process. This can help in determining needs and priorities as well as in building broad-based political and community support for the lasting success of any major programme. On the one hand, private business, civil society organizations and academia can help identify barriers to competitiveness. On the other hand, broad-based community and public support is likely to be important in the implementation phase of recommendations, as some measures may have negative impacts in some parts of society, at least in the short term. Working in a transparent manner can help inform on the diagnosis of problems and need for change, as well as on the measures to be taken. Appropriate adjustment measures may be needed to facilitate change while social safety nets may be needed to address potential social hardship.

> **Road map marker**: The national competitiveness council, NCC, would benefit from private sector participation to obtain ideas, advice and build consensus.

Annex I Diagnostic - where is the nation on the road map for export success?

Questions to assist national orientation

Micro-economic and institutional questions	
Is it possible to streamline government bureaucratic procedures?	A survey can help identify and eliminate red tape that is time wasting and costly. It is a principal concern of the business sector.
Does the legal system provide certainty before the law, with swiftness and equity?	Having access to a legal system that can enforce contracts speedily and fairly is an important element in creating a favourable environment for business, and also helps to reduce corruption.
Is there a need to reform the investment regime to set clear guidelines, to process applications, to permit repatriation of profits and provide for arbitration on disputes?	Attracting FDI as well as domestic investment can help lift productivity and international competitiveness. There may be a need to clarify and simplify the investment regime, including through the establishment of a single window/one-stop shop for handling inquiries, requests, approval and registration.
Does business registration need to be streamlined?	Streamlining business registration can improve the environment for investment and business generally.
Is there adequate protection of intellectual property rights (patents, etc.)?	Protection of their intellectual property rights is seen by many international businesses as a necessary condition for being willing to invest in a country.
Is there a modern, effective competition policy and agency empowered to enforce such policy?	Certain business practices may be used to capture economic rents (‘excess’ profits) to the disadvantage of the public and other business clients, obviating the benefits of reforms. Similarly horizontal mergers and acquisitions need investigation to ensure fair competition prevails. Vertical links may bring some benefits and should not be banned per se.
Are financial markets working well, with access to investment capital at market rates for small and medium-sized enterprises (SMEs) (taking account of the need to provide reasonable returns for financial institutions under competitive conditions in financial markets)?	The high cost of capital (interest rates on loans for investment or to finance or insure exports) is a serious problem in many developing countries, especially for SMEs. Private banks may be colluding to maintain high interest rates. The government may need to invoke competition policy, or to encourage the establishment of micro finance institutions, or establish a national development/export bank.
Is there a need to deepen financial markets, for example, with the establishment of a stock exchange or commodities exchange?	Healthy financial and commodity markets can assist the functioning of an economy, sending price signals to investors about market worth and increasing the productivity of capital. Commodity markets may help local producers obtain better prices.
Is there adequate data to inform policy decisions?	Accurate, up-to-date statistical data are crucial for monitoring economic performance and making any necessary course corrections. Data on conditions in foreign markets also help identify problems.
Are main areas of policymaking and administration as transparent as possible?	Transparency helps to reduce corruption. Transparency is consistent with creating national consensus on policy.
Are trade support institutions working as well as possible?	Trade support institutions provide essential support, especially for SMEs in areas such as identification of market opportunities, promotion, finance, legal support.

Is there national consensus on sectoral policies?	Achievement of long-term strategy goals requires a coherent approach across all main sectors of the economy to maximize efficiency in resource allocation. Consensus needs to be built in the National Competitiveness Council with private-public sector participation. Any special treatment for one or more sectors should be based on correction of market failures, including recognition of non-economic goals and other externalities (positive and negative).
Are science and education policies consistent with and supportive of national competitiveness objectives and sectoral development?	Support for R&D, innovation and adoption of new technologies is important for productivity. Vocational training in growing sectors also increases productivity and assists participation on global value chains.
Are labour/manpower policies geared to supporting the national effort on productivity and international competitiveness?	Decent work policies need to be complemented with policies to increase flexibility in the labour market.
Are land policies, including right of transfer and consolidation, consistent with making best use of land?	Traditional laws relating to the ownership and transfer of land can sometimes prevent consolidation into viable plots for economic production.
Trade/Infrastructure	
Are tariff policies consistent with improving resource allocation and international competitiveness?	A long-term goal should be liberalization, but tariffs may be needed in short/medium terms for revenue purposes. Tiering may exist but should be progressively phased out and the variance should be minimized to improve resource allocation, unless there are market failures/externalities to take into account. Complex tariff structures should be avoided. Excise taxes, applicable equally to domestic and imported goods, should replace tariffs as a revenue tax. Alternative measures should be used for sectoral support, if considered desirable for social goals/externalities.
Are public funds, with direct expenditure or indirectly through non-collection of taxes ('subsidies'), being used to support commercial activities anywhere throughout the economy?	Like tariffs, subsidies can create distortion in the allocation of resources and impact on competitiveness, unless they are used to correct market failures or for recognized social reasons. Specific non-notified subsidies are actionable in the WTO while export subsidies are prohibited except on a limited basis for LDCs. An annual report on the use of subsidies should be published in the interests of transparency and to limit the scope for corruption.
Pending longer term tariff liberalization, is there provision for waiving tariffs on materials used in exporting?	Schemes such as duty drack, temporary admission regimes (TARs), export-processing zones (EPZs) may be useful to help reduce the costs of imported inputs for exporters. Some countries have problems administering drawback schemes and TARs, hence tendency to use EPZs, although this need not exclude other options.
Is good use being made of concentration of hard and soft infrastructure in industrial parks, export processing zones, including for regional development and promoting certain types of industry?	Industrial parks can help defray infrastructure costs across a range of activities and facilitate trade. They may also promote the exchange of ideas and skills. Some are specialized in high technology industries which are often seen as having advantages in upgrading industrial activity. They may be useful for participation in global value chains. They can also be helpful for regional development, creating jobs in poorer regions.
Is there a need to review procedures to facilitate exports and imports?	Delays in handling trade can be expensive. Costs can be reduced through efficient customs processing, including simpler paperwork, automation, sample checks. Facilitating imports can also be beneficial to exporters that use imported materials.
Are non-tariff measures (NTMs) being used consistently with national policy goals and WTO rules?	It may be useful to survey what NTMs are being used nationally, what is their purpose and how they are being applied. Sometimes measures used ostensibly for legitimate reasons such as health and safety are in practice used for protective reasons. Some measures require WTO Enquiry Points.

Is there a need for regulatory reform in services to ensure the international competitiveness of exporters that are users of such services?	Services are important inputs in the production and export of goods and other services. It is important for international competitiveness that exporters have access to world quality services at international prices. Key services for exporters include hard and soft trade infrastructure, banking and insurance, telecommunications and transport, some of which may be supplied by government agencies as well as the private sector.
Are state-owned enterprises or state-sanctioned monopolies, state-trading organizations and marketing boards operating efficiently with no implied subsidization or restrictions on imports?	Privatization is not a WTO requirement but it is important for the economy that state-operated or sanctioned trading operations should operate efficiently with due regard to the taxpayer's money. To the degree that the operation provides services for exporters and ensuring their efficiency also contributes to international competitiveness. Any implied subsidies or, on the other hand, constraints on imports in their operations may be subject to WTO dispute settlement.
Is physical infrastructure a problem for trade?	Physical infrastructure for trade is key for export success - roads, rail, bridges, waterways, ports and airports. In some regions this may need to be tackled with cross-border cooperation. Although such works are long-term, in the process of construction they generate employment and draw workers into the tax base.
Is there sustainable financing for public investment, including through public-private partnerships?	There is a need to use innovative approaches to sustain work on infrastructure, involving the private sector where possible, to ensure the setting of priorities and public support.
Is there a consistent approach to international trade negotiations at the bilateral, regional and multilateral levels?	Trade negotiations can be useful for opening markets as well as locking in domestic reforms. Generally, deeper liberalization - covering services as well as goods - is more beneficial but may imply greater adjustments. There is a need to ensure consistency in commitments across different agreements. There may be a need for specialized training in trade law and negotiation skills.
Is the composition of imports consistent with improving productivity and building export supply capability?	Capital goods imports can help productivity, infrastructure. Imported inputs may be important for exports. In transition to more liberal trade policies, priority may be given to liberalizing tariffs and NTBs on such goods, ahead of consumer goods, etc.
Is there a need for reform of the tax system and structure to broaden tax base and to reduce distortions that harm investment and trade?	Moderate, relatively even tax structures can help to broaden the tax base, reduce distortions that have a negative effect on the allocation of resources and help create an enabling environment for domestic and foreign investment.
Is tariff policy aimed at eliminating distortions and fostering economic development based on improved resource allocation?	Moving towards moderate tariffs with low variance helps improve resource allocation while providing government revenues pending tax reform. Exemptions, such as duty drawback and similar schemes, may be useful for inputs of capital, materials and other inputs to export industries. As noted earlier, some countries have problems administering drawback schemes and TARs, hence the tendency to use EPZs, although this need not exclude other options.
Do taxes, tariffs and fiscal supports work coherently to support efforts on economic development and international competitiveness?	It is important for fiscal policies to send a clear, unambiguous signal to the business community and the public about policy goals. Special treatment needs to be justified as correcting market failures, not a political favour.

Chapter 2 Determinants of the demand for exports

1. Levels and shifts in foreign demand, exporters and competitor prices in foreign markets

At the broadest level, the framework for export competitiveness must take account of trends in trade and trade policies in foreign markets.

First, a successful performance in foreign markets depends on the responsiveness of exporters to shifts in those markets. On the one hand, overall exports are governed by income - and hence demand - in foreign markets. Such demand also depends on needs and tastes as well as shifting economic conditions in each market. In times of crises, demand may be expected to fall, picking up again as markets recover. For example, a spell of cold weather increases the demand for heating fuels (and may divert expenditure away from other products). The share of different products will also vary as some goods and services are more sensitive than others to changes in income: basic commodities tend to be relatively unresponsive (inelastic) to income changes, while consumer durables, for which demand can easily be postponed, are more sensitive. (Taking account of trade policy factors in foreign markets and how to respond is discussed in a later chapter).

While larger firms are usually able to carry out their own market research, smaller business may benefit from the experience of businesses with which they are linked in a global value chain. However, others may rely on market intelligence from their official representative in overseas markets – trade commissioners or commercial counsellors. Ministries of Foreign Trade, Export Boards or other trade support institutions might also be expected to carry out analyses of patterns and trends in foreign markets to help identify the better prospects, including niche markets, as well as possible shifts in competitiveness. ITC also provides surveys for specific products and can provide direct advisory services. There are also a number of tools, including ITC's MacMaps to help in such analyses (also discussed later) which can be used by government and the private sector to provide basic data and analysis on foreign markets. Such analyses may also extend to looking at indices of revealed comparative advantage (RCA), trade intensity, intra-industry trade, and so on, which are either available directly from ITC or can be easily computed using ITC data as well as data from UN COMTRADE, UNCTAD and World Bank WITS system. See the following Box for some common trade performance indicators.

Some of these analytical tools are useful for looking at a country's performance in individual markets and in individual products. For example, the trade intensity index can be useful in assessing whether an exporting country is doing as well as might be expected in a foreign market, given its own and its trading partners' patterns of trade. The gravity model may also be useful in helping to identify the reasons for such performance, including the role of trade barriers.

Road map marker: Exporters need to be responsive to trends in demand for their exports in foreign markets. Trade ministries and/or other trade support institutions should also provide analyses of market patterns and developments. An analysis of exports can also be helpful in assessing competiveness fundamentals.

Box 1: Some common indicators of trade performance

Among the more common indicators of trade performance are revealed comparative advantage (RCA), trade intensity index (TII) and intra-industry trade (IIT).

The RCA measures a specific product's share in the country's total exports relative to a share of this product in the world trade. This may help identify a country's export potential. The index can be tracked over time or compared across countries to gauge if a country's trade is developing in a particular direction. When the product's share in national exports is higher than the product's share in the world exports (RCA>1), the country is said to have revealed comparative advantage in the particular product. Thus, the ratio of country j's exports of product i to its total exports to the world divided by the ration of the world's exports of product i to total world export to get the RCA for country j on product i:

$$RCA_{ij} = \frac{X_{ij}}{X_i} / \frac{X_{wj}}{X_w}$$

IITi = ((Xi + Mi) - |Xi - Mi|) / (Xi + Mi)

The TII measures the strength of bilateral trade flows and helps to determine if the value of bilateral trade is greater or smaller than what would be expected on the basis of the partners' share in world trade. It is calculated as the proportion of one country's exports going to a partner country divided by the proportion of world exports going to the same partner country. The trade intensity index (TIIij)) is defined for country i's exports to country j as the share of i's exports going to j, (Xij/Xi)), relative to the share of j's imports (Mj) in world imports net of i's imports (Mw- Mi), that is:

$$TII_{ij} = \frac{X_{ij}}{X_i} / \frac{M_j}{M_w - M_i}$$

The extent to which a country is trading more or less as expected is also often measured using a gravity model of trade, in which the trade between two countries is correlated with the size of the countries, geographical proximity, including whether or not there is a common border, common language and historical ties, and so on. In this kind of model the unexplained residual is often said to correspond to the effect of trade barriers.

Openness is sometimes measured as the ratio of the sum of imports and exports of goods and services to GDP.

These and other trade indicators are described by Francis Ng in B. Hoekman, A. Mattoo and P. English (eds.) (2002), Development, Trade and the WTO, A Handbook, World Bank, Washington DC. See Appendix B Trade Indicators and Indices.

Second – and here international competitiveness plays a critical role - the share of different exporters in foreign markets is determined by the relative prices of the equivalent goods or services from those countries as perceived in the foreign market: equivalent goods coming from the cheaper country, at the relevant market price in the importing country, may be expected to capture the market. These offer prices are a composite of various elements starting with the basic cost of production and the various services required to get the goods or services to the foreign markets. For goods, for example, the prices of competing exporters' goods include the cost of shipping and insurance, and any import charges, such as customs tariffs. Similarly, there are - somewhat different - transaction costs for traded services.

Road map marker: International competitiveness is based on costs of production relative to those of their competitors as well as factors that precede production and, subsequently, the services involved in getting their goods and services to foreign markets through to the final consumer or user industry.

However, the prices that influence the overall level of demand and the market shares of different exporters are the prices at which the goods or services are actually sold in the foreign market, where small exporters may largely be price-takers. So the accumulated costs through the production and trading processes determine the offer prices, which are adjusted to the actual sales price by the reconciliation of supply and demand, and have to be converted into domestic currency using an agreed, market- or policy-determined exchange rate. (As noted above, exchange rates may be influenced by fiscal and monetary policies).

Road map marker: Exporters need to take account of shifting exchange rates, not only of their own currency vis-à-vis foreign markets, but also the exchange rates of their competitors vis-à-vis those markets. There is a need for central banks to manage domestic demand through interest rate and exchange rate policies that finds the right balance between the prime responsibility need to control inflation and the objective of developing the export sector.

2. Prices and cost centres of goods and services in the value chain

Export success depends on being able to take action on the various costs that go into final prices, be they production costs or the costs in getting the goods or services to market. As noted above, at the most basic level, the volume of exports in foreign markets is determined by the level of demand and the offer prices of exports as perceived by consumers or user industries in those markets. However, the offer price is composed of various elements starting with the basic cost of production covering land, labour and capital as well as inputs that are consumed in production such as energy, water, and inputs such as materials, components and parts that are incorporated in the final good (at each stage of production). An integral part of the equation is a series of factors such as quality, delivery times, after-sales service and so on. These also help to determine whether one exporter is more or less successful than another, whether from the same country or elsewhere.

In addition, costs may depend on the technology used in the production process: low-labour-cost countries may use more labour-intensive processes with relatively simple technologies, while high-labour-cost countries may use more capital intensive processes. The choice of technology may also depend on the existence of economies of scale, and, hence, the size of the market being served. This may also reflect strategic decisions: for example, in the earlier days of their development, a number of developed and developing countries in Asia, sometimes working closely with large industrial conglomerates, decided to foster a range of heavy industries as part of their industrialization, often behind protective barriers initially, and progressively opening up to international competition. The same is true of services, where a number of developing countries have deliberately fostered the development of ICT, professional, financial and transport services, e.g. India and Singapore. Like the earlier targeting of heavy industry, making the investment to develop certain service industries has delivered a strategic advantage to first movers in the form of greater knowledge and higher technology parts of value chains, although there can be risks in ‘picking the winners.’

However, export success is not necessarily a matter of having the lowest farm-gate or ex-factory prices: the final price in the export market also includes the costs of the various services employed in getting the goods or services to the market (or getting the consumer, such as the tourist, to the goods or services on offer). For goods, for example, prices in the foreign market include the cost of shipping and insurance, but there are many other cost centres in the value chain.

It has been argued that by looking at ‘the costs of doing business through a specific product or industry lens, value chain analysis facilitates the identification of binding constraints to growth and competitiveness and the effective targeting of institutional and policy-related issues, at the sector and economy-wide levels alike.’[5] Such analysis suggests that the reform agenda relates to three broad core areas.

- Product or services market issues – trade policy, competition policy, price distortions, subsidies, licensing, standards for products and services, customs, logistics, property rights, and the regulatory framework.

- Factor market issues – wages, capital charges, utility market issues, labour market rigidities, land price and zoning.

[5] Moving toward competitiveness: A value-chain approach’, World Bank, 2007. Available at: www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/MovingTowardCompetitiveness/$FILE/Value+Chain+Manual.pdf

- Market-related issues – market diversification, research and development, product or service diversification and supplier linkages.

As noted in NTPES 2011, these findings suggest that the obstacles to trading are typically not unique to one particular sector, but affect exporters from diverse sectors. These common factors suggest that firm productivity greatly depends upon public inputs to production and well-functioning markets in which firms operate. Government policies either contribute to or constrain the creation of a business-friendly environment in which firms can efficiently obtain and sell their inputs.

Value chain analysis sets outs the various cost centres where policies may be directed to lift export competitiveness. Thus:

- The value chain begins with the need for firms to access raw materials and intermediate goods for production. Here the most cost competitive and reliable source of supplies is sought, either domestically or abroad.

- Next, inputs are transported to the firm via customs, distribution warehouses and overland (road, railway, etc.). Some inputs may be 'transported' via telecommunications or other mode of cross-border trade (outsourcing services).

- Inputs are then processed into agricultural or industrial products or services.

- Finally, the products or services are 'transported' to destination markets. This depends on efficient logistics' functions, for which there is a need for good communication systems (telecommunications and Internet). Good communications systems are also necessary for export of services typically characterized as 'business process outsourcing'. All products, whether agricultural or manufactured, must conform to Technical Barriers to Trade (TBT) requirements. Agricultural products must conform to sanitary and phytosanitary (SPS) requirements. Services may need to meet regulatory requirements.

This simple schema is useful for disentangling the stages in the production of goods and services. However, there is a need to take account of the span of complex inter-linkages: the output goods or services by one firm may be inputs to the production of goods or services by other firms which may be national or foreign. As a simple example, iron ore from Australia or Brazil may used in the production of steel in Japan or the United States of America, which is then used to make trucks and railway rolling stock which are in turn used to transport ore and steel products (back in Australia or Brazil). Again, energy is generated by various means using industrial equipment and energy is used in the production of such equipment. A more complex example is the production of computers that incorporate complex intellectual design e.g.in the United States of America while parts may be produced in a number of countries, e.g. in East Asia, to be assembled in different locations in Asia or Ireland and sold elsewhere; but the same computers may well be used in the design process in the United States of America and to control production in Asia and by the service suppliers, e.g. logistics companies from Europe, the United States of America or elsewhere, at various stages of the value chain. Education and scientific research and development are likewise important inputs in production and other services in the value chain.

Road map marker: There are many cost centres in the value chain. An analysis of value chains is useful to identify such cost centres and to help design policies that target reducing costs and facilitate formulating commercial relations within and across national boundaries.

3. Policies targeted at the cost centres in the value chain

The costs of inputs and prices of final goods and services are affected by policies at various stages in the value chain. Such policies may add to the final prices – for example, through the imposition of customs tariffs or regulatory requirements – or they may reduce prices – for example through the provision of direct or indirect subsidies. Similarly, there exists a range of policies that affect factor costs directly and indirectly – for example, policies on investment that may help the adoption of cost-reducing innovations, lifting productivity. R&D policies, vocational training and other indirect measures work in similar ways.

ITC's NTPES 2011 provided a schema that set out the main policy areas for action. These were then prioritized and explored in depth in each chapter of that publication. The same approach is developed here and the main issues are taken up in succeeding chapters to develop this part of the road map or action plan for implementation. In addition, there is some discussion here of a wider set of policies that impact on competitiveness, so that policymakers and the private sector can take this into account in formulating or advising on policies in a more holistic way, as noted earlier.

Broadly, the range of policy instruments includes:

- Tariffs (including preferences), non-tariff measures (including domestic supports and export subsidies), contingency protection, trade facilitation (including single windows for documentation), customs valuation (including rules of origin), transparency in the formulation and application of policies and policy instruments.
- Regulatory systems, market access and national treatment for foreign services' suppliers, competition policy.
- Investment rules and procedures, protection of property rights, good governance, business registration and other aspects of business, environment.
- Technical regulations, standards, conformity assessment, testing, mutual recognition agreements, enquiry points.
- Trade negotiations at multilateral, regional and bilateral levels.

Less direct, but with important long-term policy implications for international competitiveness, are policies in the areas of education (building human capital, skills, etc.), research and development, labour laws (wage rates, working conditions), land ownership and so on.

Overall, the policy instruments need to address a range of issues 'at the border,' 'behind the border' and 'beyond the border'. Some instruments target specific areas of the supply chain that would boost competiveness; these include, for example, duty drawback schemes that 'provide exporters of manufactured goods with imported inputs at world prices and thus increasing their profitability, while maintaining the protection for domestic industries that compete with imports.' Other instruments are crosscutting and affect multiple areas of the supply chain through policies that shape the country's trading and economic landscape. These include overall improvements in transport, communications, port services and distribution that can have an impact at various stages of the supply chain.

Policy instruments with the overarching objective of lifting export competitiveness can be classified into a set of intermediate set objectives:

- Provide an enabling environment for business, including political and institutional stability, judicial access, enforceability of contracts and an equitable tax system.
- Provide support policies for all sectors of the economy, consistent with international rules.
- Lift factor productivity, including through greater national and foreign direct investment.
- Lower costs by facilitating access to inputs of goods and services at competitive prices, including soft and hard infrastructure.
- Ensure cross-border trade in goods and services takes place rapidly, reliably and cost effectively;
- Promote exports and marketing.
- Improve access to export markets issues.

Some of these goals are within the reach of individual businesses but other action areas are clearly within the responsibilities of government. In this case, it is generally desirable that government policies to tackle these issues be applied in a general way to help all businesses that aim at export success, rather than policies that are targeted to specific activities. This creates an environment which is not specifically targeted at individual firms and industries ('picking the winners') but which allows new businesses also to flourish and become tomorrow's champions.

Road map marker: An effective set of direct and indirect policies to lift export competitiveness needs to address all stages of the value chain. Such policies may address single points in the value chain or may be cross-cutting, addressing different stages of the value chain.

Chapter 3 Achieving competitive production of goods and services

1. Provide an enabling environment for business

The political and institutional environment of a country (as well as economic stability) is important for attracting and operating business, local and foreign-owned. Within this overall framework, the key issues are respect for rule of law, a transparent, respected and accessible judicial system, enforceability of contracts, respect for property rights, ease of registration of businesses, including foreign investment, and the absence of corruption. The importance of these issues is highlighted in the World Bank's annual report on Doing Business.

In some countries, confidence and public support has also been built within the consultative process under a National Administrative for Competitiveness - comparable to the National Competitiveness Council, suggested earlier as a marker for the road map. In Columbia, for example, this council works at the regional level, with representation on the national body. This helps to ensure that regional issues are given consideration in formulating the national strategy and policies.

However, addressing these issues requires a substantial effort that goes to the culture of doing business and cannot be effected quickly, as noted in the road map in Chapter V and in the Annex. On the other hand, announcing that changes are to take place and taking the first steps towards implementation can already have a significant impact in the short term.

In principle, these are also issues that should not be approached from the perspective of export policies, but it has sometimes been found that the impact other policies on exports has provided a motivation and sense of urgency that may otherwise not be part of this kind of broad-based political, judicial and institutional reform.

Road map marker: Competitiveness requires an enabling environment for business, including political stability and functioning institutions. The judicial system needs to be transparent, respected and accessible. Contracts have to be enforceable. Registration of business and foreign investment should be facilitated.

2. Tax systems and tax rates

Providing an enabling environment for business may also require taxation reforms. Interviews with the private sector show that taxation is one of the primary concerns of the business sector (not to mention related concerns of governments on the payment of taxes where the primary business activity takes place). In many countries, there is a large informal sector so that the burden of taxation falls unevenly on the formal business sector, reducing competitiveness compared to other countries where the tax burden is spread more evenly.

There are two issues: the taxation system itself and tax rates. These issues often arise in a reform programme aimed at improving the competitiveness of an economy, since tariff revenues may be reduced under the trade component of the reform. In such cases, tariff revenues may need to be replaced by other sources of government income and this should be part of a coordinated fiscal reform which may be part of a process of budgetary rebalancing. On the other hand, some subsidies and supports may need to be cut to be compliant with WTO rules and this may assist revenues, if not always exporters.

In general, the IFIs often recommend the introduction of value added taxes (VAT) since these are deemed to be self-policing: exemption/reimbursement need proof of payment to suppliers who are then caught in the tax net. However, this does require a relatively sophisticated tax collection system that may be beyond the capabilities of less advanced countries, and for these some simpler system may be required. VAT and certain other taxes are usually reimbursed to exporters.

Experience shows that stable, transparent and moderate corporate tax rates that are neutral between local business and FDI have been associated with increased competitiveness. While tax incentives have been used in the past as part of industrial and export development policy, particularly in the early phase, WTO rules have become more restrictive in these areas, and there are some doubts about their effectiveness. Import liberalisation also brings down exporters' costs, but, in the phase-in period and under regimes of moderate protection, consideration may be given to the use of drawback schemes or temporary admission regimes that fall within WTO rules.

Road map marker: Reforms to build international competitiveness often require reforms of tax systems and rates. Such reforms are necessary to spread the burden of taxation more fairly. Also, stable, transparent and moderate corporate tax rates help to induce foreign investment and build competitiveness. Tax reforms may be needed to replace tax revenues, while subsidies and exemptions may need to be brought into conformity with WTO rules. Rebates of certain domestic taxes and duties on imported inputs (or exemption schemes) can be used to assist exporters.

3. Supportive sectoral policies (agriculture, mining, manufacturing and services)

3.1. Cross sectoral impact of trade and related policies

A key focus of trade policy analysis over recent decades has been the interaction of policies across different sectors of the economy. This was given much sharper focus when it became possible to make quantitative estimates of effective protection and was given a further boost with the development of computable general equilibrium models. Work carries out using these techniques showed clearly that assistance for one sector of an economy can have a negative impact on other sectors, leading to the conclusion that policy should not discriminate between sectors.

However, while the main thrust of trade and related policies today is towards greater neutrality in the treatment of the different sectors of the economy. For example, a valid economic case can be made for intervention where externalities or diseconomies are associated with particular industries. For example, the promotion of high-technology industries may bring benefits to the rest of an economy that go beyond the support to that sector. On the other hand, some industries generate environmental pollution that has a negative impact on other industries and some form of intervention may be required to ensure that the polluter pays. The difficulty is in identifying these externalities or diseconomies, quantifying the gains or losses to society and applying appropriate support or corrective policies.

Road map marker: Good practice in economic policy suggests that all sectors should be treated equally by government policy. However, externalities or diseconomies associated with certain types of production may merit support or corrective action.

3.2. Agricultural policies

Agricultural policy is of great significance to most developing countries. Since so many of the rural poor are dependent on agriculture for their livelihood and the urban poor spend most of their incomes on food, then the poor are highly vulnerable to changes in the prices of agricultural commodities, especially food. Today, food security is given as one of the main reasons for agricultural support in developing countries, although it is sometimes argued that cash crops may provide higher incomes with which to purchase food imports, leaving a disposable surplus for other development needs.

Whatever the source of intervention in the agricultural sector, various developed and developing countries have concluded that the sector cannot be exposed to international competition without causing social and economic disruption. (Environmental and other non-trade concerns have more recently been added to the list of objectives of agricultural policy intervention). Agricultural trade policy has become an instrument aimed at redistributing income to the rural sector, not only in the European Union and Japan, but also in major agricultural exporting countries like Canada where the dairy and poultry sectors benefit from substantial transfers.

These policies of the developed countries have important implications for the developing world since they impact on their ability to produce and sell for reasonable returns. These include most importantly import tariffs, tariff quotas (sometimes called tariff rate quotas or TRQs), domestic supports (a large number of measures), and export subsidies (which also includes export credits with a subsidy component, e.g. through the application of non-market rates of interest). Other instruments or institutions operating in the agricultural sector include technical barriers to trade (TBT measures, which also affect labelling in agriculture), sanitary and phytosanitary (SPS) measures, state trading, price controls, and so on, which are now recognized to be of increasing importance as barriers to trade.

(Many of these issues are covered under discussion in the WTO multilateral negotiations, as discussed in a later section of this paper.)

Given the range of polices in the agricultural sector, it is difficult to select the optimal policy design to improve competitiveness, particularly since trading partners and competitors may use a similar array of policies, with a tendency for these to cancel each other out in a wasteful manner. This means that it can be quite difficult to foresee the effects of limited policy changes in any one country, and goes some way to explaining the store put on multilateral negotiations for resolving issues in agricultural production and trade.

Nevertheless, it is possible to lay out some of the key elements that need to be part of an overall competitiveness strategy, particularly to address market failures. The key elements include:

- Neutrality between sectors (in the absence of externalities)
  - Support for one sector may implicitly tax on other sectors
  - Import protection=implicit tax on exports
  - Intervention causes loss of economic welfare
- Producer prices (reference, trigger, minimum prices)
  - Need to be linked to world prices or risk supply/demand imbalances
  - Producer subsidies increase production and depress prices
- Stabilization schemes
  - Need to limit buffer stocks, establish link to international prices
- Consumer price controls
  - May have the effect of cutting production
  - Food programmes for poor may be a preferable alternative
- Input prices
  - Controls on the prices of seeds, fertilizer, water and credit may lead to overproduction, sometimes shifting production to less economic means
  - Extension services, support on SPS should be on a cost recovery basis
- Liberalization package
  - Eliminate quantitative controls, taxes
- Import price stabilisers may be useful in the short term (specific tariffs, etc.)

- State-trading enterprises may need to be privatized and/or competition from private sector should be allowed
- Marketing boards may be useful for their countervailing power against large international marketing conglomerates, but can be a source of inefficiencies and corruption
- Deregulation
  - There may be a need to review regulatory constraints on marketing, allocation of licences, etc.
  - Price controls should be progressively dismantled
- Land reform
- Account need to be taken of the impact of agricultural policies on
  - Poverty alleviation
  - Environment

Several policy areas that are important for agriculture are also important for other sectors and are discussed in cross-cutting policy sections. These include: the availability and cost of finance, infrastructure needs, quality controls (TBT/SPS), trade facilitation, and so on.

Road map marker: There is a need to ensure consistency in the policy objectives of the large array of agricultural policy instruments, as well as consistency with policies for other sectors. In general, policy measures to support competitiveness will ensure that local prices of factors and final goods are linked to those of the international market. However, some kind of food programmes for the poor may be indicated. Land reforms may also be critical to improved productivity. Quality controls may be important for access to foreign markets. Given the degree of intervention in foreign markets, reforms need to be carried out with due caution, perhaps in the context of multilateral programmes to avoid worsening the welfare outcome.

3.3. Industrial policies

Here, industrial policy refers to trade and related policies towards industry, designed to cope with market failures or where there is a divergence between social and private costs, without any connotation of singling out specific industries for preferred policy treatment. Examples are polices to promote industrial clusters that permit the exchange of ideas and allow for defraying infrastructure costs across a range of businesses in areas such as assembly, high-technology products or call-centres. These may also be used for the purposes of regional development, where governments find it cheaper to foster industrialisation to provide jobs in remote areas, rather than cope with increased migration to large urban conglomerations. Thus, the provision of infrastructure to assist production and trade may be seen as an important industrial policy, although it is also beneficial to other sectors of the economy. While this is sometimes provided by the private sector, for example by mining companies which need rail and port infrastructure in remote areas, the long-term nature of such projects often means that government needs to take on the role as the principal provider.

Other objectives of industrial policy may be non-economic. An example is the development of defence industries. Indeed, the defence argument has sometimes been used in other areas: Norway, for example, considers it important to farm its land area up to its frontiers to stake its claim. A similar argument has been used in the Middle East and other parts of the world. Another non-economic argument has been the need to develop flag carriers in civil aviation, although this is less common today. The development of heavy industry has also sometimes been carried out for prestige objectives, irrespective of the cost. While Japan and Korea are sometimes cited as examples of supporting strategic investments to capture economies of scale and eventual international competitiveness such policies are expensive and can easily go wrong. Moreover, they can create a dependency that makes the eventual phasing out of support difficult.

Some other policies, discussed below, may also be described as industrial policies in that they are intended to provide some kind of support. These include polices to lift productivity, polices to promote R&D or innovation (including broader science policies), skill-oriented education policies, and so on. Targeting improved standards, for example by establishing a standards institute, can also produce dividends.

WTO rules have limited the scope for use of a number of policy instruments that were used to support industrial development in the past. Thus the use of subsidies, quantitative restrictions, import prohibitions, trade-related investment measures (TRIMs, such as local content plans, export-balancing requirements, etc.) has been curtailed by WTO rules. This leaves the customs tariff as the key trade policy instrument used to support industrial development (other options are available under WTO rules governing agriculture and services. In addition, technical barriers to trade – ostensibly applied for safety reasons – may be used to provide additional protection. Protection against imports can also be applied in certain, carefully defined circumstances, using 'contingency' measures: WTO provisions on safeguards for emergency protection against import surges, anti-dumping duties (against the alleged cutting prices below domestic market levels) and countervailing measures (against subsidised exports). While these have been used heavily in the past by developed countries, there is increasing use by some of the larger developing countries, despite requirements to submit WTO notifications and, in the case of emergency protection, to make an effort to adjust to new competition.

As well as industrial policy, tariffs are sometimes used for revenue purposes or, in conjunction with excise duties, as 'sin' taxes or luxury taxes – being higher on alcohol and tobacco, perfumes, etc. as well as consumer durables, luxury cars, and so on. In industrial policy, tariff escalation is often used to promote added value, with high duty rates on finished goods, while inputs to the production process face low duties. Since many countries use this approach, there is a tendency for the gains to be cancelled out, and the effect on the allocation of resources inside the domestic economy lead to welfare losses from the resulting inefficiencies. (Reducing tariff escalation is a goal of the current WTO negotiations on industrial tariffs, as discussed later). Thus, the main thrust of tariff policy today is to even out the variations, particularly by cutting high rates in the first instance. While reforms are being implemented, duty-drawback and waiver schemes can offset the high cost of imported inputs for export industries, as noted earlier, although these may challenge the administrative capabilities of some countries.

Export taxes and export restrictions may also serve to hold down costs and ensure the availability of supplies for local industry, although the use of restrictions is limited to certain cases under WTO rules. Thus, the use of export taxes on tropical timber logs can help ensure low-cost supplies for domestic plywood production, raw hides and skins for the production of leather goods, oil seeds for vegetable oil production, and so on. Such taxes can cause distortions in the domestic economy, mirroring the kind of distortion cause by support to import-competing industries.

Road map marker: Industrial development can be fostered by investment in infrastructure, including around clusters. Fostering industries in regions may be an effective industrial policy goal. Competitive industries can also be supported by coherent policies in investment, science, education (including vocational training), standard-setting and taxation (as discussed later) that lift factor productivity. Reducing tariff dispersion can increase efficiency and reduce the misallocation of resources. Low tariff on inputs, including duty-drawback and temporary admission schemes, can help offset high input costs while reforms are being implemented.

3.4. Services sector policies

As noted earlier in the discussion on value chains, services are a critical part of production and trade. They provide inputs into the rest of the economy and competitive exporting of agricultural and manufactures goods also require access to competitively priced services. However, services are also an end product in areas such as tourism.

In general, the size of the services sector is greater as economies become more developed typically over 70% of GDP, while in poorer countries this share may be as low as 30%. By contrast, international trade in services appears relatively small, even as low as 20% of total trade for some countries. However, this understates the importance of services for two reasons. First, as discussed services make up a large part of the price of final goods sold in an export market, perhaps as much as 90%, depending on the product. So that as much as 90% of world trade in goods is in practice trade in services that cannot easily be separated out in statistics. Second, the international price of services is transmitted via trade into the domestic economy, so that domestically produced services have to meet international prices to compete in their home market – provided, of course, that there is access for foreign services suppliers.

Just as looking at supply chains is helpful to identifying cost centres in trade, so also is it useful to consider how services are trade. The WTO General Agreement on Trade in Services (GATS) identifies four modes of supply:

- Services supplied from one country to another (e.g. international telephone calls), officially known as ‘cross-border supply’ (in WTO jargon, ‘mode 1’).
- Consumers or firms making use of a service in another country (e.g. tourism), officially ‘consumption abroad’ (‘mode 2’).
- A foreign company setting up subsidiaries or branches to provide services in another country (e.g. foreign banks setting up operations in a country), officially ‘commercial presence’ (‘mode 3’).
- Individuals travelling from their own country to supply services in another (e.g. fashion models or consultants), officially ‘presence of natural persons’ (‘mode 4’).

This breakdown of modes of supply makes it clear that the principal policy instruments in the area of services are regulatory: authorization to provide services and operating conditions.

While the WTO system promotes liberalization in general, it is important to note that the GATS makes a clear distinction between domestic regulation and measures subject to trade liberalization. Thus, it promotes the objective of progressive liberalization, consisting of expanding and/or improving existing commitments on market access and national treatment. However, it also recognizes the right to enforce domestic policy objectives through regulation. Indeed, effective regulation may be a pre-condition for liberalization to produce the expected efficiency gains without compromising on quality and other policy objectives. For example, the market opening may need licensing mechanisms and obligations on quality and social policy. The need for regulatory protection on the provision of medical services is an example.

Examples of public policy objectives that might require regulatory support include:

- Equitable access, regardless of income or location, to a given service.
- Consumer protection (including through information and control).
- Job creation in disadvantaged regions.
- Labour market integration of disadvantaged persons.
- Reduction of environmental impacts and other externalities.
- Macroeconomic stability.
- Avoidance of market dominance and anti-competitive conduct.
- Avoidance of tax evasion, fraud, etc.

However, while governments may remain free under the GATS to pursue such policy objectives – even where they have undertaken commitments on market access and national treatment – the WTO, as in the cases of tariffs and non-tariff measures, also has procedures for negotiating and making internationally binding commitments in services, and these in effect constrain the use of domestic polices in the services sector, except that government services are excluded from the scope of the agreement.

First, in areas where Members have made market access commitments (and unless there are special exemptions), the first principle, as in the case of tariffs is most-favoured nation treatment, which means treating one's trading partners equally on the principle of non-discrimination. If a WTO Members allows foreign competition in a sector, equal opportunities in that sector should be given to service providers from all other WTO members. Second, unless commitments specify otherwise (explicitly or by omission from commitments) foreign companies are given the same treatment as domestic companies – 'national treatment'. However, if a government limits the number of banking licences it will issue, for example, allowing foreign banks to open only one branch while domestic banks are allowed numerous branches, that is an exception to the national treatment principle.

A key constraint on how WTO Members conduct policy on services is that they must be transparent. For example, governments are required to publish all relevant laws and regulations, and set up enquiry points within their bureaucracies. Foreign companies and governments can then use these inquiry points to obtain information about regulations in any service sector. And they have to notify the WTO of any changes in regulations that apply to the services that come under specific commitments. In addition, regulations must be objective, reasonable and impartial. When a government makes an administrative decision that affects a service, it should also provide an impartial means for reviewing the decision (for example a tribunal). Also, when two (or more) governments recognize each other's qualifications (for example, the licensing or certification of service suppliers), GATS says other Members must also be given a chance to negotiate comparable pacts. The recognition of other countries' qualifications must not be discriminatory, and it must not amount to protectionism in disguise.

The GATS also requires that when a government makes a commitment to open a service sector to foreign competition, it must not normally restrict money being transferred out of the country as payment for services supplied ('current transactions') in that sector. The only exception is when there are balance-of-payments difficulties, and even then the restrictions must be temporary and subject to other limits and conditions.

Finally, the GATS envisages that the current WTO negotiations are to carry forward the liberalization process, increasing the level of commitments in schedules.

When services were introduced into the multilateral trading system with the establishment of the WTO in 1995, many developing countries were initially concerned that opening up trade in services would expose their relatively weak services industries. In practice a number of developing countries are now serious exporters of a range of services. They have found that there are niche opportunities in tourism, construction, transport, health, professional and business services, audio-visual services, and so on. Also, while there are still many restrictions on the movement of labour, developing countries are major suppliers of skilled and unskilled labour to regional and global market and studies show that there is considerable potential for expansion when labour markets are eased, although these seem mainly to be linked to migration policies, rather than GATS-specific agreements.

Opening up domestic market to international competition in services may be one of the most important steps in acquiring and maintain competitiveness in trade in agricultural and manufactured goods. These gains occur through productivity, access to finance, transfer of technology and building human capacities. Host economies gain from employment creation and diversification, higher wage rates, increased possibilities for strategic investments (local subsidiaries, joint ventures, establishment of R&D centres), and other spill-over benefits, such as the transfer and upgrading of skills and technology and gains from consumption by outsourcing firms.

It is also important to recall that the production and delivery of some services, such as energy, water, ports, and so on also require inputs from the manufacturing sector. This completes the circle: manufacturing requires services which require manufactured products. This underlines the importance of a comprehensive and coherent approach to increasing productivity and international competitiveness.

Road map marker: Access to efficient services at international prices is essential for the development of internationally competitive agricultural, manufacturing and other service industries. But other sectors also provide inputs into the production of some services – hence the need for a comprehensive, coherent approach to increasing productivity and competitiveness. While appropriate safeguards may be needed for sensitive sectors, market opening and national treatment through regulatory reform are the keys to such efficiencies.

4. Lifting factor productivity

If an exporter is to reduce costs and hence prices to increase exports, then it is desirable to increase factor productivity. Improving the allocation of resources through more neutral sectoral policies – in the absence of externalities – is part of that strategy, as discussed above. But it is also possible to work on factor productivity in other ways. These include helping to make individual factors such as capital, labour and more productive.

4.1. Capital, finance, investment

In the narrow sense here, 'capital' refers to capital goods – mainly plant and equipment, while investment refers to the adding to capital stock. Such investment in capital can help increase competitiveness by making labour and land more productive, but the total combined costs of different means of production will determine the appropriate combination for any one country - as mentioned earlier, low-labour-cost countries will tend to use more labour-intensive methods, and so on. There may also be options in the choice of capital equipment, which will ultimately be selected on the basis of cost and quality for the desired level of production.

A problem in many developing countries is that the cost of the financial capital – borrowing from banks or other financial institutions - to purchase the physical capital can be very high compared to the borrowing costs in developed countries – often in the region of 30% a year for small and medium-size enterprises (SMEs). Large businesses, however, often have access to cheaper funds through overseas affiliates.

Commercial banks can and sometimes do fill this need. However, their rates may still be high because of the alleged risk factor. On the other hand, there may also be collusion among local banks to maintain high interest rates to boost their profitability. Opening the financial sector to foreign banks may be helpful in improving the quality of banking services, but there is no guarantee that they will not join in any collusion to maintain high interest rates. A competition authority, if one exists, may need to investigate and take action against any such restrictive practices, but this is a complicated and sometimes expensive process. (Competition policy is discussed later).

The solution for some developing countries has been to establish a local development and/or export bank (concerned specifically with financing the process of exporting or insurance of exports in transit). Such institutions, backed by government, can often borrow money at moderate rates on international markets, perhaps by bond issues, and re-lend to the private sector. Provided this lending is at rates above the borrowing rate then this avoids possible concerns that such lending is subsidized and contrary to WTO rules on prohibited export subsidies. Important examples are – on a large scale - Brazil's Banco Nacional de Desenvolvimiento (BNDES) and – on a smaller scale – the Development Bank of Mauritius.

Sometimes funding may be obtained directly by the private sector from regional development banks, which may also be involved in setting up national development banks. On a completely different scale, some poor countries have had success in establishing micro-finance institutions, such as Bangladesh's Grammeen Bank. National banks and lending programs are also common in many countries in the agricultural sector, lending funds to farmers to purchase seeds or fertilizer at the beginning of a growing season and being reimbursed when the crops are sold. The may also be involved in lending for the purchase of farm equipment.

Road map marker: It may be necessary to address market failures in the provision of investment funds for capital investments at reasonable interest rates, especially for SMEs. This could involve opening up the financial services' market to foreign participation and/or action by a competition authority against collusion to maintain high interest rates. It may involve the establishment of a national development and/or export bank to counter market failure. Assistance could also be provided to assist the establishment of micro-finance institutions which fulfil a role of little interest to larger banks.

An alternative source of capital may be foreign direct investment (FDI). Like domestic investment, this may make a useful contribution to growth and employment as well as productivity gains. Although there has been controversy in some countries about FDI in the past – mainly linked to control over national assets –

there is now widespread recognition that FDI can bring benefits to the host economy through extra-saving and investment, foreign exchange, new technologies and products, new skills (including managerial skills), access to foreign markets and marketing. Indeed, FDI may be the most important way for developing countries to enter global value chains.

If a developing country wishes to host FDI – and there is sometimes competition to attract prestige foreign companies such as Intel - there is a need for a simple, transparent procedure for processing investment requests. Any review and approval mechanism should operate with clear-cut rules. Procedures may need to be streamlined, e.g. as a one-stop shop or single window, and red tape should be avoided. Unnecessarily bureaucratic procedures may create an impression of inefficiency or corruption that reflects badly on the country as a place to do business.

Road map marker: FDI can bring a number of benefits through extra-saving and investment, foreign exchange, new technologies and products, new skills (including managerial skills), access to foreign markets and marketing. FDI may be the most important way for developing countries to enter global value chains.

4.2. Labour

As in the case of capital, many developing countries may need to look at the functioning of their labour market. Again, there are two issues. The first is the cost of labour and the second is the quality of labour – human capital.

Labour laws are a highly sensitive political issue in many developed and developing countries, but it is recognised that they can have a major impact on the cost of labour. This goes not only to wage rates but also to other conditions of employment. In some countries the social charges are equal to the wage bill, and government-required guarantees of employment make business reluctant to take on new workers. The benefits that accrue to existing staff can militate against the creation of new jobs. However, benefits such as child care and medical care can be important in drawing new workers, especially women into the workforce. A national scheme that allows the portability of pensions between jobs can also help labour mobility.

Concerning the quality of labour, it is known that having a skilled workforce is one of the keys to participation in global value chains. In this respect, there is a need to integrate education, science and manpower policies with the overall competitiveness strategy. The availability of a well-educated workforce can lead to improvements in labour productivity and competitiveness. Education policy and programmes need to be oriented to providing skills that are needed for the developing economy. (Such programmes may also have a direct pay-off in that skilled workers can find jobs in other countries – 'movement of labour' under the GATS – and benefit the home country through remittances).

Road map marker: Building international competitiveness may also require efforts in the labour market to reduce the costs of hiring and to provide facilities that will draw women into the workforce. Improving labour skills through vocational training can also lift productivity and insertion into global value chains.

4.3. Land

Lifting productivity in agriculture may require land reforms in a number of countries. For example, in some countries land ownership laws do not easily allow the combining of properties into larger commercial units (e.g. the Mexican ejido system, reformed under NAFTA). This can reduce the viability of large-scale, more economic farming.

The availability of land for industrial development may also be important, and has also become an issue in a number of the bilateral discussions on accession to the WTO.

In economic terms, allowing foreign investment in land as part of a package to attract FDI might be considered. On the other hand, it is understood that there can be a number of sensitivities on land ownership, such as in border areas or on the sea shore. Similar issues may arise with respect to sea-bed and other offshore resources.

Road map marker: Lifting productivity of land may require land reforms to allow the creation of commercially viable units. Provisions on foreign ownership may need to take account of local sensitivities.

5. Access to inputs (materials, capital goods)

Access to imported inputs at world prices is crucial for export expansion. However, as noted in the NTPES 2011, tariffs and other measures designed to protect domestic industries also raise the price of raw materials, intermediate and capital goods, reducing the profitability of export production that use these goods as inputs. Tariffs also raise the relative return to production for the domestic market compared exporting, causing an ‘anti-export bias.’

An ‘ideal’ approach might be to reduce tariffs, reduce or eliminate tariff escalation, and eschew the use of anti-dumping and quantitative restrictions (QRs), but such reforms are typically long and difficult, running into resistance from protected industries and sometimes even from revenue authorities. However, a number of counter-balancing export promotion policies can be used to reduce anti-export bias and make exports more competitive. These include limited use of export subsidies, and various export promotion schemes - including specialized schemes (duty drawback, temporary admission regimes – TARs – and special economic zones); policies to develop local industries, and regional sourcing.

Under duty-drawback schemes refunds of duties paid on imported inputs are made on shipment of export goods that incorporate dutiable components. These schemes are particularly advantageous in countries where tariffs for intermediate products are high but where the government does not yet feel able to cut such rates (the preferred solution). However, some developing countries consider that the administrative machinery required for such verification of inputs would be prohibitive in terms of costs. To overcome this burden some developing countries have developed averaging schemes to simplify the procedures. However, there is a need to ensure that the verification systems are in full compliance with the provisions of the WTO rules, and it may be advisable that such countries seek technical assistance from customs authorities of developed countries, or from compliant developing countries, in order to set up the appropriate verification systems.

Under temporary admission regimes, regular, known exporters are allowed to import inputs duty-free where they are to be incorporated in an exported product. Similar schemes allow products to be imported duty-free provided that they are re-exported in the same state as they were when imported into the country. These schemes are often associated with export-processing zones.

A number of countries opt to establish export processing zones, special industrial zones, free trade zones or export promotion zones. These zones can reduce the costs of infrastructure and services to firms operating in the zones. They can facilitate administration of special tariff regimes and help cut administrative formalities. They can create positive externalities through technology transfer, and management and labour skills benefiting other firms in the zones. They have sometimes been effective in generating jobs in depressed regions. Special tax incentives have been used in these zones. However, factors other than tax regimes are more critical, including: availability of skilled labour, political stability, and ease of doing business.

Companies operating under these schemes are exempt from paying customs duties on imports of raw materials, and often intermediate inputs and capital goods, used for the production of exported goods. Zones can be publicly or privately owned or managed and can be ‘high-end’ or ‘low-end,’ depending on the quality of the management, facilities, and services they provide firms. They tend to promote the establishment of related industries to form clusters and, as they grow, they tend to attract new companies operating in the specific field in which the free zone specializes.

While special economic zones can be useful at earlier stages of development, as NTPES 2011 pointed out ‘EPZs are more likely to succeed when monetary and fiscal policies (low inflation, budget management, independent monetary policy), are sound and stable, private property and investment laws are clear, firms are free to repatriate earnings at market rates, and there are no restrictions on foreign exchange.' Thus: 'even if export promotion is in order (i.e. WTO compatible and deemed a solution to the country's low FDI inflow), an EPZ may not be the best instrument to achieve such a goal. If these economies are intent on establishing new zones, [there should be] minimal differential fiscal incentives compared to the national standards, minimizing their distortionary impact on the host economy.' However, these zones may be easier politically to implement initially than full-scale national liberalisation, and can serve as a bridge to longer term trade liberalization on a national basis. They reduce anti-export bias of high tariffs by permitting an exporting company to access inputs at global prices, and therefore may aid the creation of an export industry and improve a country's trade balance.

Another option is to provide a facility for export credits, where this does not already exist. Such a facility can take the form of either a supplier or a buyer credit at commercial rates, although this is subject to the same issue of availability of finances as noted earlier on the cost of capital. The use of export credits occurs when a buyer or a supplier of exported goods or services is allowed to defer payment for a certain period of time. In most countries such support is given by the banking sector either directly or through a specialized intermediary. In other countries the funds necessary for export credits are provided directly by government agencies. Supplier credits are extended by the exporting company, which then arranges refinancing. In the case of the buyer credit, the exporter's bank, or another financial institution, lends funds to the buyer in the importing market. Export credits can be medium term (two to five years) or long term (at least five years). The objective in either case is the same: the promotion of exported goods and services in foreign markets.

However, WTO rules prohibit export credits below certain interest rates as well as government payments of the costs incurred by exporters or financial institutions in obtaining credits used in order to secure a material advantage in export credit terms. On the other hand, providing finance at commercial rates to assist exporters is not in itself an export subsidy, nor is it contrary to WTO rules. The issue is whether the finance is provided at subsidized rates, i.e., below the rate the lender obtains finance plus the lender's operational costs, as discussed in an earlier section.

Road map marker: Short of full trade liberalization, tariffs and non-tariff measures on imported inputs raise the cost of exporters, creating an anti-export bias. They can be partially offset by duty-drawback schemes, the establishment of export processing zones, and certain highly restricted use of export subsidies. Export credit and export finance schemes may be useful, provided interest rates are not high enough to be considered prohibited export subsidies.

6. Competition

In principle, if the domestic market is open to trade in goods and services, there would be little need for a competition policy, as argued by some economists. However, in practice, there are a number of barriers to entry in various areas of production that may require some form of government intervention to ensure the contestability or regulation of markets. Thus, a vigorous competition policy may be needed to complement other reforms.

There are several possible sources of the problem of lack of competition. At one level there are certain areas where 'natural' monopolies seem to occur: for example, infrastructure of road, rail, canals, energy and telecommunications, where – up to a point - it does not seem logical to have multiple service providers: imagine, for example, parallel roads or railway lines. Historically, many such services have been provided by the State, but today, often as a result of privatization policies, these are often provided by private firms operating under strict regulations for a franchise period Such regulations might cover the quality of service with constraints set on prices and profitability. However, finding the right balance between fair pricing for consumers and adequate incentives for the supplier to maintain and improve infrastructure is complex and controversial. It usually requires an ongoing relationship between the firms and the regulator to:

- Prevent the abuse of monopoly power.

- Protect consumers from information asymmetries.
- Provide assurance of fair prices with reasonable profits.
- Require operators to take account of social concerns.
- Win public acceptance of privatization programmes.

On the other hand, there are also areas where economies of scale set up a barrier to entry by new competitors, who might have to take substantial risks, absorbing costs while building a big enough market for their product that they can achieve a minimum efficient scale of operation. Either the private sector meets this from its internal resources or has to borrow from investment bank with potentially long time horizons before recovering the investment. However, as noted earlier, in many developing countries there is a weak financial services market and this is a problem for their industrialization.

Another issue arises when firms abuse their market power or collude with other firms to drive up prices at the expense of the consumer or user industries.

Thus, competition policy and an efficient regulatory framework may be necessary to ensure:

- The transmission of international prices into the domestic market.
- The efficient working of internal markets.
- That consumers benefit from trade liberalization.
- That market access commitment in goods and services is not obstructed by restrictive practices.

However, while open, competitive markets are generally considered to be most conducive to economic development, different market structures may need different competition or regulatory approaches. For example, a government monopoly may not need regulation, while a private monopoly may need a regulatory framework covering pricing policies. In addition, certain anti-competitive business practices may lead to improvements in economic welfare:

- Mergers may bring productivity gains (but increase prices).
- Protection of intellectual property can benefit society by promoting invention, but may increase costs, so that exceptions are allowed under WTO rules for medicines for poor countries.
- Vertical market constraints may enhance product choice and after sales service.

This means that such practices should not be prohibited but may be subject to investigation as to their likely effects and prior approval may also be required in the more important cases. On the other hand, bid-rigging and horizontal price fixing are usually considered to be unambiguously harmful to society and merit prohibition with significant penalties in the case of breaches of the rules.

Essentially, a good regulatory policy requires well-developed rules of administrative process and constitutional protection. It also benefits from transparency and stability of the mechanism. However, the precise regulatory framework may need to be tailored to the country’s institutional capability. If the market is working then a hands-off approach is indicated: competition, transparency and public pressures avoid the need for rules-based solutions. However, if formal rules are necessary to correct market failure, then there needs to be the political will and judicial institutions to enforce the rules in a transparent and stable manner.

> **Road map marker**: Different market structures may need different competition or regulatory approaches. Mergers and vertical market constraints may bring social benefits, and be subject to approval. Protection of intellectual property may be desirable and is often subject to WTO rules. However, bid-rigging and horizontal price fixing should be prohibited. Regulatory policies need to find a balance between quality of service and profitability.

Even following large-scale privatizations in recent years, governments remain the most important consumer in many countries and need an efficient, cost-effective government procurement system to ensure that government services are also provided at competitive prices. While it makes sense to make government purchases at the best possible prices (to save the taxpayer and consumer of government services), sometimes procurement procedures used for development of certain technologies, support for SMEs or for national security reasons by means of price preferences project design, implying increased costs.

In general, good practice on government procurement requires:

- Timely and effective planning.
- Transparency and competition through indicative notices of planned procurement.
- Limiting qualification procedures for tenders to strictly technical, financial, managerial capabilities.
- Focussing technical description of project on performance and results (international or national standards).
- Clear and transparent rules.
- Publication of notice of awards of contracts and the reasons.
- A preference for open tendering, based on lowest price.

In WTO, the Government Procurement Agreement (GPA) prohibits discrimination among foreign suppliers (MFN treatment) and between domestic and foreign suppliers (national treatment). It is one of only two plurilateral agreements (the other concerning Trade in Civil Aircraft), so that there is no obligation to adhere, although a number of developing countries and transition economies have been obliged to indicate their intention to adhere to the agreement during their accession. In general, other developing countries have not joined because of concerns the desire to avoid the costs of information and contract compliance associated with international tendering procedures under the GPA. However, it may also be that low-cost foreign firms can exercise market power and drive out local firms before hiking their prices, similar to predatory dumping, while small countries may perceive that they have little chance of winning export contracts for which they would be able to tender if they were members of the agreement. Domestic firms, which benefit from preferences, may also be exercising pressure on their governments not to adhere (and corrupt officials may fear losses under more transparent international tendering). Finally, there may also be little pressure on some countries to adhere to the GPA because their markets are of minor importance and contracts are often tied to foreign aid.

> **Road map marker**: Governments need to establish competitive bidding procedures for procurement to ensure that government services to the private sectors are also available at competitive prices.

Chapter 4 Getting into foreign markets at competitive prices

The previous chapter focused on getting producer prices right – the costs of production of goods and services at the farm or factory gate and equivalent for services. In the domestic market some of those goods and services are themselves inputs in to the production of other goods and services, so there is a follow-through in the various stages of the domestic value chains. Likewise, there is a need to look at barriers against imported goods and serves to ensure that they are available at world prices to keep production costs as low as possible.

However, getting those goods and services to final consumers or user industries abroad also requires effective participation in global value chains. There is therefore a need to ensure that the costs of trade are also competitive so that the delivered price retains the hard-won efforts in production. While some of these efforts are again directed to domestic policies, efforts also need to be made to address possible barriers in foreign markets, as discussed below.

1. Facilitate, reduce costs of cross border transactions (trade facilitation)

Apart from the liberalisation of instruments of trade policy, there is a need to ensure that trade and customs administration facilitates trade and does not constitute an obstacle to trade. In this respect, it is recalled that exports often use imported material inputs and capital equipment so that action to facilitate imports also has benefits for production and exports. However, while procedures are necessary to ensure the collection of appropriate tariff and tax revenues, compliance with health and safety rules, prevention of trade in illegal drugs, hazardous substances, and endangered species and for the collection of data, the simplification of documentation and inspections procedures can save time and money for traders.

A number of techniques are available to help simplify, speed up and reduce the costs of customs administration. These include computerization of various processes including making customs declarations and the collection of statistics, using systems such as ASYCUDA and its equivalent. Sampling of containers in transit, sometimes on an elective basis (red/green channels or the push-button equivalent), can also be useful for speeding up border controls. One-stop shops or single windows are used to obtain trade documentation for exports, including certificates of origin, compliance with standards and so on.

Trade facilitation requires both hard and soft infrastructure that are likely to need attention in many developing countries. Physical infrastructure often needs to be improved at ports and airports, as well as connecting road and rail networks to and from plants, warehousing facilities, processing zones and to commercial distribution centres, as discussed earlier. Physical infrastructure may also be taken as including the installations that are used for telecommunications that now link government and most businesses. Soft infrastructure includes documentation, business regulations and transparency, as well as appropriate software to facilitate communication between government and business and within these sectors. In many developing countries these various functions are often at risk because of power outages that cause serious breakdowns at all levels of business and government.

Road map marker: Efforts are necessary to ensure that trade procedures are not hindered by physical and soft infrastructure. Cumbersome processes add to costs and slow down the logistics of trade. Trade facilitation is one of the key ways of reducing trade costs.

2. Infrastructure

Attention needs to be given to infrastructure development and maintenance in the areas of transport, communications, energy and water, which are important for trade and economic and social development more generally. Infrastructure development is particularly important for land-locked countries or countries with difficult terrain, although this may need to be tackled in a regional context (as is now the case in a number of World Bank operations in Africa and Asia). In the Global Reviews of Aid for Trade in the WTO system, infrastructure has been highlighted as meriting attention, and in practice the larger share of aid for trade now goes to infrastructure development.

It is often pointed out that infrastructure investment is very much a long-term proposition in helping trade – for example, a bridge cannot be used until it is completed. However, while such public works are in progress they help to generate employment and provide a valuable source of income for many poorer workers – in effect providing a Keynesian-style stimulus package.

Where private sector participation or control of infrastructure projects is feasible and considered desirable to supplement the scarce resource of the state, then there is likely to be a need for a well-developed regulatory framework that guarantees fair pricing while encouraging development and maintenance of the service and a reasonable return for the operator.

Road map marker: Physical infrastructure has been identified as one of the main areas needed to lift international competitiveness, especially for landlocked countries. While such projects tend to be long term, the construction process itself creates jobs and income for poorer workers, similar to economic stimulus packages.

3. Export market issues

When exports enter foreign markets, assuming they are not blocked by trade restrictions of some kind, the export price is usually also raised by the imposition of customs tariffs. Moreover, mandatory standards or regulations may require cost-increasing modifications. Thus, the price that affects demand in foreign markets - and, hence, competitiveness - is also affected by the foreign trading partner's policies.

However, there is a wide range of access conditions to foreign markets and it is difficult to generalise. As noted in NTPES 2011, average tariffs are modest on agricultural and industrial goods, but there are important areas of interest to developing countries and LDCs where protection levels are quite high; non-tariff measures can also be important – in some case more important than tariffs. On the other hand, developing countries usually benefit from preferential access to developed countries' markets under the Generalised System of Preferences. LDCs often have even better tariff treatment than other developing countries, and under a WTO initiative receive duty-free, quota-free access on most good entering developed countries' market as well as China, India and the Republic of Korea. In addition, selected groups of developing countries also receive special preferences and aid packages under a number of schemes, such as the EC's scheme for former African, Caribbean and Pacific colonies.

In the case of services, it is difficult to assess the impact of trade regulations. However, restrictions on the movement of labour seem to have a strong negative effect on the potential earnings of the developing countries.

Under WTO talks, negotiated changes in trade regimes will present new opportunities for some countries and pose challenges for others, for example, through the loss of preferences. Regional trade agreements among developing countries offer an alternative to developed markets and there is considerable activity in such South-South arrangements, but they also pose their own challenges.

Businesses have considerable concerns about the growing incidence of non-tariff measures (NTMs), such as technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS). Environmental measures and anti-dumping duties are also more important today. Occasionally, the issue is less the existence of such measures – which may be for socially desirable reasons, such as environmental protection – and more the manner they are administered. WTO and most regional agreements make provision for consultations and dispute settlement procedures to resolve disagreement concerning the use of NTMs. NTMs are being discussed in several areas of the Doha Round of trade negotiations, potentially leading to further clarifications on the use of NTMs.

It is important for developing country exporters to take stock of market trends and development in the use of trade policy instruments in foreign markets. In this respect, ITC takes the lead in identifying market opportunities through its technical assistance programmes, including tools such as MacMaps, which allow businesses to identify opportunities in their areas of activity. Identifying markets, including potential niches, and the conditions for success in those markets, for example, changing trends, tastes, etc., are essential areas where ITC provides assistance.

While WTO negotiations affecting global trade have moved slowly, partly due to the complexity of issues and number of participants, there has been a rapid increase in the number of regional agreements in recent years, as indicated above. One explanation for this trend is pressure from business communities that have strong links in neighbouring countries, where business can more clearly calculate the potential gains and risks from strengthening ties in wider regional markets without waiting for results from the WTO. Business needs to take an active role in all of these negotiations to ensure that the outcome facilitates trade and investment, and that bureaucratic obstacles are minimized.

Businesses must be alert to challenges arising from changes in trading conditions, including the emergence of new competitors and the use by third countries of various legal and illegal instruments to promote their exports. Changes in trade regimes at home and abroad may lead to increased competition. Businesses may be able to meet this competition by improving their competitiveness in existing lines of production. However, businesses may also need to adapt, for example, by shifting to alternative products based on existing technological bases. Governments must be concerned about negative effects on business as well as in the labour market. Governments may need to implement adjustment programmes, supporting re-training of workers to help them and the business in which they are employed to cope with changes, and where necessary, facilitating movement into new lines of production.

Changes in trade regimes rarely occur overnight. The business community and governments normally have some time to adapt to new situations. In WTO there is usually an implementation period of five to 10 years, which may require legislative action by Member States. However, in the past some shifts have occurred relatively quickly and a number of developing countries have had difficulties in adapting to new situations.

Road map marker: There is a need to monitor developments in international trade and trade policy. Governments also need to take an active role in international trade negotiations at the multilateral and regional levels to advance their interests in opening markets for their export. They may need technical assistance and capacity building to participate effectively in such negotiations from ITC and other international organizations.

4. Export support institutions

Implementing a broad-based export strategy is clearly a role that has to be carried out across government with private sector consultation and support. It also requires building an export culture in the private sector, and an important role can be played by trade support institutions (TSIs), which include export promotion, trade finance, and quality and standards organizations. Trade Promotion Organizations (TPOs), in particular, play a pivotal role within the domestic business environment, as the interlocutor between government and business, but also as an interface with foreign markets, and their establishment is an important step in achieving export success.

While TPOs were sometimes criticized in the past, it is now widely accepted that, as foreign market opportunities and the complexities of the export process have expanded, a competent organization is needed to support enterprises wanting to sell abroad. TPOs are needed to identify business processes, define measures, establish key performance indicators and establish mechanisms to record and monitor performance. They may fill the role of identifying market trends and opportunities, discussed in the previous section, and can go further helping to identify niche opportunities for national production with prospects of export success.

However, sometimes other trade support institutions (TSIs) may be desirable to provide complementary services, including in standards and quality, finance institutions and legal services, as indicated previously.

It may also be valuable to establish domestic networks of organizations involved in trade as well as with similar organization in other countries to share and learn from experience.

Exporting may also be supported by market intelligence, e.g. through a trade commissioner or commercial service, assisting participation in trade fairs, linking domestic producers with importers in foreign markets, and so on.

Road map marker: One or more trade support institutions (TSIs) would be helpful to act as an interlocutor between government and business, and as an interface with foreign markets. A trade promotion organization may specialize in export promotion, while one or more other TSIs might specialize in trade finance, and quality and standards organizations. It can be useful to establish networks domestically and with counterparts in other countries to share information and learn from others' experiences.

Chapter 5 Towards a road map for export success

This chapter draws together the various road map markers that were established at the end of each section to provide a clear set of directions for establishing international competitiveness and export success.

Some recapitulation of key points may be in order.

First, there are a number of tools to help exporting countries assess their trade performance in individual markets and products and to help identify market opportunities and problems. However, there is no right level of exports for all time: economies change over time and it is common in the earlier stages of development for imports to exceed exports, while there are capital inflows from aid, borrowing, foreign investment and remittances. Prudence suggests that these inflows should be used to build productive capacity for future exports. This new productive capacity, as well as innovation and discoveries of natural resources, can change comparative advantage and trading patterns. Trade policy changes at home or in the context of multilateral and regional trade negotiations can also influence the direction and composition of trade. Also, as observed in recent years, swings in exchange rates can have a dramatic impact on trade.

A second observation is that openness to trade is important, but is not sufficient to ensure sustained export growth and greater diversification. Complementary policies may be necessary to manage structural adjustment and the effects of volatility. The key questions remain how to turn reforms into a supply-side response and achieve export success and how to achieve a broader-based international competitiveness that produces a development payload. Achieving such competitiveness needs to take account of a wide range of factors that are often interlinked, so that a comprehensive or holistic approach is needed for success. This suggests, as borne out by a number of experiences, that the key to export success is to get the domestic policy environment right.

However, the list of constraints that prevent a country from achieving international competitiveness and export success is very long, and most developing countries are unable to make wholesale changes simultaneously. On the one hand, many developing countries are constrained by a lack of financial resources to carry out often-expensive reforms. On the other hand, it takes time to build the necessary constituency for reform. Because policymaking requires buy-in from a diverse range of stakeholders, often with competing views, they need to be convinced of the rationale for reform. It is therefore critical to galvanize stakeholders around overarching constraints, which if addressed would have the greatest impact on expanding trade and promoting economic growth. Because national circumstances are so diverse, there is a need for an approach that takes account of these circumstances and is tailored to national needs. Nevertheless, there are some similar, fundamental signposts on the road map, which, with clear direction from the ‘pilot’ – in effect, an authoritative council with public-private sector participation – help to point the way.

The road map is intended to assist governments and private businesses to identify overriding objectives and suitable trade policy instruments to address the constraints, taking account of the distinct national starting post and the terrain to be covered. It is intended to help these fellow voyagers take a holistic approach to national trade policy reforms, reforms that may need to be implemented with a wide range of instruments that are aligned to support enterprises to achieve export competeiveness and success.

The guiding principle of the road map, as noted in the Introduction, is that exports are driven by demand in the foreign market and prices. Prices are linked to cost factors in the domestic and foreign markets linked along the value chain, but small economies are usually price-takers in international markets.

The first chapter suggests a diagnosis of needs and the development of a strategy for international competitiveness and, specifically, export success, including the possible need for a high-level national competitiveness council with representation from the private sector. The first markers were as follows:

Road map marker: Building an export competitiveness strategy and action programme needs to begin with a national diagnostic study. This should identify weaknesses and lay out a remedial strategy, with appropriate policies and instruments for implementation. The diagnostic study should cover not only policies and instruments, but also the political and institutional framework. There is a need for ongoing monitoring to allow for modifications in the light of experience of implementation and changing national and international circumstances.

Road map marker: The diagnosis needs to cover a broad range of policies concerning trade and infrastructure, institutional and macro-economic questions which affect participation in global value chains.

Road map marker: There is a need for a national body – for convenience hereinafter 'the national competitiveness council, NCC' - to oversee the analysis and implementation of a competitiveness strategy. This body needs to be established at the highest level to have the authority and resources necessary to carry out its work.

Road map marker: The national competitiveness council, NCC would benefit from private sector participation to obtain ideas, advice and build consensus. This is crucial for any lasting impact.

The NCC must work within the framework of the demand for national exports in foreign markets, and their costs relative to those of their competitors. Their competitive position also depends on exchange rates which can fluctuate substantially over short periods.

The second chapter sets out in some detail how demand for exports is driven by economic activity in foreign markets and the prices of competing exports. It shows how those prices are perceived in the foreign market, taking account of exchange rates. Thus, the markers are:

Road map marker: Exporters need to be responsive to trends in demand for their exports in foreign markets. Trade ministries and/or other trade support institutions should also provide analyses of market patterns and developments. Various indicators can be used to assess trade performance.

Road map marker: International competitiveness is based on costs of production relative to those of their competitors as well as factors that precede production and, subsequently, the services involved in getting their goods and services to foreign markets through to the final consumer or user industry.

Road map marker: Exporters needs to take account of shifting exchange rates, not only of their own currency vis-à-vis foreign markets, but also the exchange rates of their competitors vis-à-vis those markets. There is a need for central banks to manage domestic demand through interest rate and exchange rate policies that finds the right balance between the prime responsibility need to control inflation and the objective of developing the export sector.

Chapter 2 also indicated that the broad directions of the road map need to take account of value chain analysis, which helps the navigator to understand the intersections, flyways and byways on the road that join together different sections of the road, and avoid blocked roads and traffic jams. Thus:

Road map marker: There are many cost centres in the value chain. An analysis of value chains is useful to identify such cost centres and to help design policies that target reducing costs and facilitate formulating commercial relations within and across national boundaries.

Road map marker: An effective set of direct and indirect policies to lift export competitiveness needs to address all stages of the value chain. Such policies may address single points in the value chain or may be cross-cutting, addressing different stages of the value chain.

Chapter 3 focused on the elements that influence producer costs, including the business environment, taxation, sectoral policies, policies to lift productivity, access to inputs and competition policy. This is perhaps the most complex section of the route and there are a number of road markers to cover this stage:

Road map marker: Competitiveness requires an enabling environment for business, including political stability and functioning institutions. The judicial system needs to be transparent, respected and accessible. Contracts have to be enforceable. Registration of business and foreign investment should be facilitated.

Road map marker: Reforms to build international competitiveness often require reforms of tax systems and rates. Such reforms are necessary to spread the burden of taxation more fairly. Also, stable, transparent and moderate corporate tax rates help to attract foreign investment and build competitiveness. Tax reforms may be needed to replace tax revenues, while subsidies and exemptions may need to be brought into conformity with WTO rules. Rebates of certain domestic taxes and duties on imported inputs (or exemption schemes) can be used to assist exporters.

Road map marker: Good practice in economic policy suggests that all sectors should be treated equally by government policy. However, externalities or diseconomies associated with certain types of production may merit support or corrective action.

Road map marker: There is a need to ensure consistency in the policy objectives of the large array of agricultural policy instruments, as well as consistency with policies for other sectors. In general, policy measures to support competitiveness will ensure that local prices of factors and final goods are linked to those of the international market. However, some kind of food programmes for the poor may be indicated. Land reforms may also be critical to improved productivity. Quality controls may be important for access to foreign markets. Given the degree of intervention in foreign markets, reforms need to be carried out with due caution, perhaps in the context of multilateral programmes to avoid worsening the welfare outcome.

Road map marker: Industrial development can be fostered by investment in infrastructure, including around clusters. Fostering industries in regions may be an effective industrial policy goal. Competitive industries can also be supported by coherent policies in investment, science, education (including vocational training), standard-setting and taxation (as noted earlier) that lift factor productivity. Reducing tariff dispersion can increase efficiency and reduce the misallocation of resources. Low tariff on inputs, including duty-drawback and temporary admission schemes, can help offset high input costs while reforms are being implemented.

Road map marker: Access to efficient services at international prices is essential for the development of internationally competitive agricultural, manufacturing and other service industries. But other sectors also provide inputs into the production of some services – hence the need for a comprehensive, coherent approach to increasing productivity and competitiveness. While appropriate safeguards may be needed for sensitive sectors, market opening and national treatment through regulatory reform are the keys to such efficiencies.

Road map marker: It may be necessary to address market failures in the provision of investment funds for capital investments at reasonable interest rates, especially for SMEs. This could involve opening up the financial services market to foreign participation and/or action by a competition authority against collusion to maintain high interest rates. It may involve the establishment of a national development and/or export bank to counter market failure. Assistance could also be provided to assist the establishment of micro-finance institutions which fulfil a role of little interest to larger banks.

Road map marker: FDI can bring a number of benefits through extra saving and investment, foreign exchange, new technologies and products, new skills (including managerial skills), access to foreign markets and marketing. FDI may be the most important way for developing countries to enter global value chains.

Road map marker: Building international competitiveness may also require efforts in the labour market to reduce the costs of hiring and to provide facilities that will draw women into the workforce. Improving labour skills through vocational training can also lift productivity and insertion into global value chains.

Road map marker: Lifting productivity of land may require land reforms to allow the creation of commercially viable units. Provisions on foreign ownership may need to take account of local sensitivities.

Road map marker: Short of full trade liberalization, tariffs and non-tariff measures on imported inputs raise the cost of exporters, creating an anti-export bias. They can be partially offset by duty-drawback schemes, the establishment of export processing zones, and certain highly restricted use of export subsidies. Export credit and export finance schemes may be useful, provided interest rates are not high enough to be considered as prohibited export subsidies.

Road map marker: Different market structures may need different competition or regulatory approaches. Mergers and vertical market constraints may bring social benefits, and may be subject to approval. Protection of intellectual property may be desirable and is often subject to WTO rules. However, bid-rigging and horizontal price fixing should be prohibited. Regulatory policies need to find a balance between quality of service and profitability.

Road map marker: Governments need to establish competitive bidding procedures for procurement to ensure that government services to the private sectors are also available at competitive prices.

Chapter 4 looked at factors that influence the offer price that is faced by consumers and user industries in the foreign market, including the services that are involved in getting the goods or services to that market. It also looked at the trade and regulatory policies that influence the final price.

Road map marker: Efforts are necessary to ensure that trade procedures are not hindered by physical and soft infrastructure. Cumbersome processes add to costs and slow down the logistics of trade. Trade facilitation is one of the key ways of reducing trade costs.

Road map marker: Physical infrastructure has been identified as one of the main areas needed to lift international competitiveness, especially for land-locked countries. While such projects tend to be long-term, the construction process itself creates jobs and income for poorer workers, similar to economic stimulus packages.

Road map marker: There is a need to monitor developments in international trade and trade policy. Governments also need to take an active role in international trade negotiations at the multilateral and regional levels to advance their interests in opening markets for their export. They may need technical assistance and capacity building to participate effectively in such negotiations from ITC and other international organizations..

Road map marker: Given the size, complexity and rapid developments in foreign markets, it is advisable to establish a national trade support institution, particularly to deal with trade promotion. Additional specialized agencies may be desirable in relation to standards and finance, and perhaps also to provide legal services for exporters.

It may be useful to consider these different stages of the route in a schematic form, as in the following table, which also tries to include some idea of timing.

This is in effect the road map for the various stages of the journey to international competitiveness and export success. The road map has two broad areas for steering the economy toward increased international competitiveness and export success. These are: 1) institutional; and 2) micro-economic policies, trade and infrastructure policies. But, there is a need to appoint a navigator to steer the process, in the form of an NCC. The road map goes on to set out how the different agencies need to plan their routes so that parallel convoys proceed in a coordinated manner to reach the final destination.

The road map also tries to give an idea of timing and potential impact of the various measures that are suggested for consideration. The first stage, in the first year of the journey, involves establishing policy objectives that have potentially high impact – but not necessarily high cost - and initiating their implementation. The second stage, which is expected to last two to three years, involves implementing policies that may have some fiscal costs and face some political constraints but may be expected to have medium impact initially, but with the passage of time should start to yield important results. The final stage, lasting three to six years, is the implementation of a set of policies that have some fiscal costs and may face significant political constraints – hence the need for a consultative process to build national consensus on their goals and need for implementation. However, these policies are expected to have important long-term gains in terms of competitiveness and export success.

None of this is easy and there are important differences in starting points for different countries as well as their political and technical constraints. However, using the road map should help governments to think out their national visions of export-led growth. There is much here that is also of direct relevance to the private sector which also needs to be clear about its objectives, and it needs to enter a dialogue with government on priorities, as well as eventually providing the political support that governments needs to implement its part of the progamme. Not all will be possible at once, but with some technical and financial support it should be possible to set out on the road to export success in short term and early success will help to build support for the later and more difficult stages.

ITC does not have responsibility in all the areas covered by the report, but it can use its authority as the specialized international agency that is uniquely dedicated to exporting to leverage the cooperation that is necessary at the national and international levels to implement a coherent, holistic strategy on international competitiveness.

Table 1: Road Map for Export Success – summary

Timing, impact	Institutional/Micro	Trade/Infrastructure
Immediate	Establish a high-level National Competitiveness Council with private sector participation to inaugurate diagnostic study, collect evidence and lay out overall strategy and develop policies for implementation.	
High-impact, short-term policy objectives (Objectives that could be achieved within one year with little or no immediate fiscal cost. Some political constraints, but large gains for competitiveness)	Reduce bureaucratic red tape on business.	Start/continue trade policy reforms (progressive reductions of tariffs and non-tariff barriers to trade).
	Legal reforms to improve certainties for business.	Start/continue regulatory reforms to liberalize services sectors.
	Streamline investment regime, including rules on repatriation of profits. Introduce one-stop shop for investment.	Engage in trade negotiations at multilateral and regional levels. Extend, deepen reach of existing agreements.
	Streamline business registration.	Introduce temporary admission regime and/or duty drawback schemes to reduce cost of imports for exporters.
	Establish/ensure effectiveness of competition policy.	Introduce one-stop shop for export documentation.
	Ensure protection of intellectual property.	Focus vocational training on skill needs (not specific sectors).
		Implement/extend trade facilitation measures on imports and exports. Customs reform.
		Facilitate establishment of industrial parks, EPZs.
		Begin reform of taxation system aimed at correcting any distortions in corporation tax and VAT.
Medium-impact, medium-term policy objectives (Objectives that could be achieved after two to three years with modest fiscal cost and some political constraints but have long-term competitiveness gains)	Improve financing for SMEs, if necessary by establishing a development/export bank covering venture capital and export insurance.	Continue trade policy and regulatory reforms.
	Deepen capital markets. Establish stock exchange, where non-existent.	Reduce role of state-owned enterprises (SOEs), where private financing is possible, e.g. in telecommunications, transport operations, other utilities. Ensure that SOEs operate on commercial basis.
	Improve fiscal and investment data collection, including at different levels of government to improve budgeting.	Foster participation in global value chains.

	Increase transparency to reduce possibilities for corruption.	
	Build effective trade support institutions.	Complete reform of tax system and rates' structure to reduce distortions and disincentives to business, including corporation tax, VAT and personal income tax.
		Simplify tax rates and system to broaden tax base, allowing for rate reductions.
High-impact, long-term policy objectives (Objectives that could be achieved after three to six years with fiscal costs and/or more difficult political issues, but have significant long-term competitiveness gains)	Develop non-partisan long-term strategy to reduce policy uncertainties covering main sectors: mining/petroleum, agriculture, fisheries, industry, services (telecoms, transport, banking, insurance).	Continue trade and regulatory policy reforms.
	Develop coherent science, education policies focused on business needs.	Focus on road, rail, waterways infrastructure to reduce costs of trade, while generating employment and tax base in short-term.
	Labour market reforms (hiring/firing), reducing payroll/labour taxes to limit labour being pushed into informal sector.	Create sustainable financing for public investment under multi-year plans, including public-private sector partnerships.
	Land reforms to facilitate ownership/transfers, creation of viable plots.	Progressive reduction of preferential subsidies to select groups to create more level playing field for all domestic and foreign investors.

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